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(The views expressed are strictly personal.)

The EEA “Grey Market” in Trademarked Products: How Many Shades of Grey?

Abstract

Choosing an exhaustion model is as choosing a shade of grey on a scale from white to black. In identifying fine nuances, one should bear in mind that at the end of the day this is a very much the issues resolved based on considerations belonging to the sphere of political economy. Undoubtedly, the exhaustion model has bearing over global and domestic trade and interests of different economic actors. From the macro-perspective, the exhaustion scheme should reflect the effective sense of balance between the concerns for global and national/EEA trade, the national/EU trademark system and the collective interests of consumers. From the micro-perspective, the exhaustion scheme should set the interests of the holder of the trademark against those of the acquirer of the product bearing the trademark. Considering that calls, mostly from the USA, for introducing international exhaustion in the EEA are gradually intensifying, re-examining the philosophies underlying the current regional exhaustion scheme in the EEA seems the desirable option. It is submitted that the at this point it is necessary to examine the need for rebalancing the conflicting interests.

Some of the notorious consequences of the trademark exhaustion are splitting the market and price differentiation. With this in mind, it is important not to neglect the transecting concerns of economic development and the protection of consumers' expectations in the global markets for trademarked products. In the absence of internationally agreed standards for exhaustion, the nation states or regional organisations will intend to generate benefits by ensuring free movement of goods and effective competition within national or regions borders, the EEA being one of the obvious examples. Yet the question has to be asked as to whether the system functions satisfactorily within its borders. Although an important justification for granting to the trademark holder the exclusive rights is to ensure the financial return for its investment in the development and improvement of the trademarked product, there is room for accommodation of other interests in a more efficient way than at present. It is submitted that on the scale form no exhaustion at all to international exhaustion (without complementary material-differences standards) there are countless shades of grey that need to be more deeply explored.

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1. Introduction

The concept of exhaustion of rights conferred by a trademark is frequently used to solve the problem of the legality of parallel importation. According to the general theory of exhaustion, when a trademarked product is put on the market with the trademark proprietor’s consent, the trademark proprietor cannot oppose the further commercialisation of that product. In EU law, the question of exhaustion of rights conferred by national trademarks is regulated by Directive 2008/95¹ and Directive 2015/2436.² The most important provisions in this regard are set out in Article 10 of the Directive 2015/2436 entitled “Rights conferred by a trade mark” and Article 7 of the Directive 2008/95 entitled “Exhaustion of the rights conferred by a trade mark”. In respect of European Union trademark, pertinent provisions are set in Articles 9 and 13 of Regulation 207/2009.³ According to the case law of the Court of Justice of the EU,

¹ Directive 2008/95/EC of the European Parliament and of the Council of 22 October 2008 to approximate the laws of the Member States relating to trade marks (Codified version) (Text with EEA relevance) (OJ 2008, L 299, p. 25).

² Directive (EU) 2015/2436 of the European Parliament and of the Council of 16 December 2015 to approximate the laws of the Member States relating to trade marks (Text with EEA relevance) (OJ 2015, L 336, p. 1).

³ Council Regulation (EC) No 207/2009 of 26 February 2009 on the Community trade mark (codified version) (Text with EEA relevance) (OJ 2009, L 78, p. 1) as amended by Regulation (EU) 2015/2424 of the European Parliament and of the Council of 16 December 2015 amending Council Regulation (EC) No 207/2009 on the Community trade mark and Commission Regulation (EC) No 2868/95 implementing Council Regulation (EC) No 40/94 on the Community trade mark, and repealing Commission Regulation (EC) No 2869/95 on the fees payable to the Office for Harmonization in the Internal Market (Trade Marks and Designs) (Text with EEA relevance) (OJ 2015, L 341, p. 21).

the provisions of Article 7 of Directive 2008/95 and Article 13 of Regulation 207/2009 must be interpreted in the same way since their wording is in essence identical.⁴

It should be borne in mind that the Court developed the basic concepts relating to the question of parallel importation before the First Directive entered into force on the 11 February 1989. However, the early case law of the Court did not lose its relevance, on the contrary, “like any secondary legislation, [...] the directive must be interpreted in the light of the Treaty rules on the free movement of goods and in particular Article 36 [of the TFEU].”⁵ This interpretative approach is the result of the rule of superiority of primary over secondary EU law. Apart from that, the primacy of international agreements concluded by the EU over secondary EU legislation has to be respected.⁶ International agreements that touch upon the discourse of parallel importation are the General Agreement on Tariffs and Trade 1994 and the Agreement on Trade-Related Aspects of Intellectual Property Rights, which both entered into force on the basis of the Agreement Establishing the World Trade Organization.⁷

2. Essential legal concepts

The concepts of “exercise” and “existence” of right, “specific subject matter”, “essential function” of trademark and “common origin” of trademark are construed on the basis of what are now Articles 34, 35 and 36 of the TFEU, and Articles 101 and 102 of the TFEU as well. As these are all crucial in understanding the parallel importation in EU, their most important aspects need to be discussed at the outset.

2.1. Concepts of “exercise” and “existence” of right

The Court developed the distinction between “exercise” and “existence” of right in an attempt to reconcile the principle of territoriality of trademark rights and the principle of free movement of goods. In its first judgement dealing with the prevention of parallel importation using the trademark rights, in the *Grunding* case the Court said: “the injunction [...] to refrain from using rights under national trade-mark law in order to set an obstacle in the way of parallel imports does not affect the grant of those rights but only limits their exercise to the extent necessary to give effect to the prohibition under [what is now Article 101(1) of the TFEU]”.⁸ This position was reaffirmed in cases *Parke, Davis and Co.*⁹ and *Sirena*¹⁰ also in

⁴ An exception is made for the definition of the territory in which the goods are to be put on the market. Judgment of 3 June 2010, *Coty Prestige Lancaster Group GmbH v Simex Trading AG*, C-127/09, EU:C:2010:313, point 46.

⁵ Judgment of 11 July 1996, *Bristol-Myers Squibb v Paranova A/S* (C-427/93) and *C. H. Boehringer Sohn, Boehringer Ingelheim KG and Boehringer Ingelheim A/S v Paranova A/S* (C-429/93) and *Bayer Aktiengesellschaft and Bayer Danmark A/S v Paranova A/S* (C-436/93), joined cases C-427/93, C-429/93 and C-436/93, EU:C:1996:282, point 27.

⁶ “Since the [European Union] is a party to the TRIPs Agreement, it is indeed under an obligation to interpret its trade-mark legislation, as far as possible, in the light of the wording and purpose of that agreement. Judgment of 16 November 2004, *Anheuser-Busch Inc. v Budějovický Budvar, národní podnik*, C-245/02, EU:C:2004:717, point 42.

⁷ OJ 1994, L 336, p. 3; approved by Council Decision (of 22 December 1994) concerning the conclusion on behalf of the European Community, as regards matters within its competence, of the agreements reached in the Uruguay Round multilateral negotiations (1986-1994) (94/800/EC) (OJ 1994, L 336, p. 1).

⁸ Judgment of 13 July 1966, *Établissements Consten S.à.R.L. and Grundig-Verkaufs-GmbH v Commission of the European Economic Community*, Joined cases 56 and 58-64, EU:C:1966:41, point 345.

⁹ Judgment of 29 February 1968, *Parke, Davis and Co. v Probel, Reese, Beintema-Interpharm and Centrafarm*,

relation to Articles 101 and 102 of the TFEU. Article 36 of the EEC Treaty (now Article 26 of the TFEU) was recognised as the legal basis for the concept in question.

In the *Deutsche Grammophon* judgement, dealing with a copyright case, the Court indicated that it is clear from the wording of what is now Article 36 of the TFEU that, “although the Treaty does not affect the existence of rights recognized by the legislation of a member state with regard to industrial and commercial property, the exercise of such rights may nevertheless fall within the prohibitions laid down by the Treaty”.¹¹

That “exercise/existence” distinction was invoked by the Court in many judgements delivered in the 1970s and early 1980s concerning the exercise of an intellectual property right under what are now Articles 34 and 36 of the TFEU as well as Articles 101 and 102 of the TFEU. Consequently, according to this distinction provisions of primary legislation do not affect the existence of national trademark rights, but they can limit their exercise. However, the scholarship expressed strong criticism about this distinction, arguing that it is artificial and unhelpful because it lacks a clear criterion.¹² It should be noted that the dichotomy of “exercise/existence” of right has not been referred to in the case law from the 1990s onwards and is considered abandoned by the Court.¹³

2.2. The concepts of “specific subject matter” and “essential function” of trademark

The concept of “specific subject matter” first appeared in the *Deutsche Grammophon* judgement. Rather than determining the content of the specific subject matter of copyright, the Court merely stated that “although it permits prohibitions or restrictions on the free movement of products, which are justified for the purpose of protecting industrial and commercial property, article 36 only admits derogations from that freedom to the extent to which they are justified for the purpose of safeguarding rights which constitute the specific subject-matter of such property”.¹⁴ In the *Hag I* judgement¹⁵ this concept was used in relation to trademark rights, but as in the *Deutsche Grammophon* judgement, the Court did not provide more explanations.

The meaning of the specific subject matter was explained with more detail in the *Centrafarm v Winthrop* judgement.¹⁶ In its decision the Court said: “In relation to trade marks, the specific subject-matter of the industrial property is the guarantee that the owner of the trade mark has the exclusive right to use that trade mark, for the purpose of putting products protected by

Case 24-67, EU:C:1968:11.

¹⁰ Judgment of 18 February 1971, *Sirena Srl v Eda Srl and others*, Case 40-70, EU:C:1971:18.

¹¹ Judgment of 8 June 1971, *Deutsche Grammophon Gesellschaft mbH v Metro-SB-Großmärkte GmbH & Co. KG*, Case 78-70, EU:C:1971:59, point 11.

¹² See Lazaros G. Grigoriadis, *Trade Marks and Free Trade: A Global Analysis*, Springer, 2014, pp. 143-146.

¹³ See the Opinion of Mr Advocate General Fennelly delivered on 6 June 1996, *Merck & Co. Inc., Merck Sharp & Dohme Ltd and Merck Sharp & Dohme International Services BV v Primecrown Ltd, Ketan Himatlal Mehta, Bharat Himatlal Mehta and Necessity Supplies Ltd and Beecham Group plc v Europharm of Worthing Ltd*, Joined cases C-267/95 and C-268/95, EU:C:1996:228. He noted, in point 93, that “the distinction between the ‘existence’ and the ‘exercise’ of rights can, at times, be quite unreal; it has not been referred to in recent case-law, such as *HAG II*, and may now, at least in so far as the interpretation of Articles 30 to 36 of the Treaty is concerned, be discarded”.

¹⁴ Judgment of 8 June 1971, *Deutsche Grammophon Gesellschaft mbH v Metro-SB-Großmärkte GmbH & Co. KG*, Case 78-70, EU:C:1971:59, point 11.

¹⁵ Judgment of 3 July 1974, *Van Zuylen frères v Hag AG*, Case 192-73, EU:C:1974:72, point 9.

¹⁶ Judgment of 31 October 1974, *Centrafarm BV and Adriaan de Peijper v Winthrop BV*, Case 16-74, EU:C:1974:115.

the trade mark into circulation for the first time, and is therefore intended to protect him against competitors wishing to take advantage of the status and reputation of the trade mark by selling products illegally bearing that trade mark.¹⁷ It follows that the specific subject matter consists of i) the right to affix and to re-affix the trademark to a good,¹⁸ ii) the right to put into circulation a trademarked good for the first time, and iii) the right to oppose the use of the trademark by a third party if the goods in question were not put on the market in one of the Member States by the proprietor or with his consent.¹⁹

The mentioned *Centrafarm v Winthrop* judgement and subsequent judgements show that there is a close link between the trademark protection under what is now Article 36 of the TFEU and the origin function of a trademark. In fact, according to the case law, by way of principle, the trademark proprietor cannot prohibit the importation of goods that were put on the market in another Member State by him or with his consent. As the Court put it in the same judgement: "If a trade mark owner could prevent the import of protected products marketed by him or with his consent in another member state, he would be able to partition off national markets and thereby restrict trade between Member States, in a situation where no such restriction was necessary to guarantee the essence of the exclusive right flowing from the trade mark."²⁰

Although the Court did not define the meaning of "essence of the exclusive right" in the abovementioned judgement, from subsequent decisions it results that the essence of the exclusive right is the origin function itself. In the *Hoffmann-La Roche v Centrafarm* judgement the Court ruled that in order to answer the question of the content of the exclusive right flowing from the trade mark, "regard must be had to the essential function of the trade-mark, which is to guarantee the identity of the origin of the trade-marked product to the consumer or ultimate user, by enabling him without any possibility of confusion to distinguish that product from products which have another origin."²¹

In the light of the above mentioned observations, the concept of "specific subject matter" aims primarily at safeguarding the origin function, i. e. the essential function of the trademark.²² The Court clarified: "This guarantee of origin means that the consumer or ultimate user can be certain that a trade-marked product which is sold to him has not been subject at a previous stage of marketing to interference by a third person, without the authorization of the proprietor of the trade-mark, such as to affect the original condition of the product. The right attributed to the proprietor of preventing any use of the trade-mark which is likely to impair the guarantee of origin so understood is therefore part of the specific subject-matter of the trade-mark right."²³

Consequently, construed in that way, for the essential function to be operational the place

¹⁷ Judgment of 31 October 1974, *Centrafarm BV and Adriaan de Peijper v Winthrop BV*, Case 16-74, EU:C:1974:115, point 8.

¹⁸ The right to re-affix a trademark to a good was included in the specific subject matter in the judgement of 23 May 1978, *Hoffmann-La Roche & Co. AG v Centrafarm Vertriebsgesellschaft Pharmazeutischer Erzeugnisse mbH*, Case 102/77, EU:C:1978:108. In other words, the trademark proprietor can prohibit the parallel importation of goods where the trademark has been re-affixed to the goods in question without his consent.

¹⁹ The requirement of consent was clarified in a following judgement of 22 June 1994, *IHT Internationale Heiztechnik GmbH and Uwe Danzinger v Ideal-Standard GmbH and Wabco Standard GmbH*, Case C-9/9, EU:C:1994:261. See Grigoriadis, pp. 147-148.

²⁰ Judgment of 31 October 1974, *Centrafarm BV and Adriaan de Peijper v Winthrop BV*, Case 16-74, EU:C:1974:115, point 11.

²¹ Judgment of 23 May 1978, *Hoffmann-La Roche & Co. AG v Centrafarm Vertriebsgesellschaft Pharmazeutischer Erzeugnisse mbH*, Case 102/77, EU:C:1978:108, point 7.

²² The essential function as acknowledged by national laws of the Member States. See Grigoriadis, p. 150.

²³ Judgment of 23 May 1978, *Hoffmann-La Roche & Co. AG v Centrafarm Vertriebsgesellschaft Pharmazeutischer Erzeugnisse mbH*, Case 102/77, EU:C:1978:108, point 7.

where the trademarked good is put on the market for the first time by the trademark proprietor or with his consent is not decisive. In effect, the aim is to assure the consumer/ultimate user that the good in question has not been subject to interference by a third person without the authorisation of the trademark proprietor, such as to affect the original condition of the product. That function should be seen, not only as a mean of guaranteeing the identity of the origin of trademarked good, but also as a mean of preventing confusion as to the identity of the business entity that is responsible for the quality and other features of the good in question.²⁴

In the *HAG II* judgement²⁵ the Court complemented the definition of the origin function stating: "Trade mark rights are [...] an essential element in the system of undistorted competition which the Treaty seeks to establish and maintain. Under such a system, an undertaking must be in a position to keep its customers by virtue of the quality of its products and services, something which is possible only if there are distinctive marks which enable customers to identify those products and services. For the trade mark to be able to fulfil this role, it must offer a guarantee that all goods bearing it have been produced under the control of a single undertaking which is accountable for their quality."²⁶

In the *IHT Internationale Heiztechnik v Ideal-Standard* judgement the Court explained when it is considered that the production is carried out under the control of a single body, i. e. "where the owner of the trade mark in the importing State and the owner of the trade mark in the exporting State are the same or where, even if they are separate persons, they are economically linked". The Court enumerated the covered situations: "products put into circulation by the same undertaking, by a licensee, by a parent company, by a subsidiary of the same group, or by an exclusive distributor". The decisive factor for assessment whether the control was in the hands of a single body is the possibility of control over the quality of goods, not the actual exercise of that control.²⁷

Based on the above, the aim of the origin function is the protection of interests, first, of the trademark proprietor and, second, of the consumer of the trademarked good. Regarding the trademark proprietor, the origin function consists in eliminating the possibility for the proprietor in question to be held responsible for the poor quality of goods for which he was in no way accountable²⁸, while for the consumer it consists in enabling him to be certain that the trademarked good has not been subject to interference by a third person without the authorisation of the trademark proprietor.²⁹

Beside the protection of the origin function, the Court construed the concept of "specific subject matter" in a way to encompass other functions of an economic nature developed in

²⁴ Judgement of 23 May 1978, *Hoffmann-La Roche & Co. AG v Centrafarm Vertriebsgesellschaft Pharmazeutischer Erzeugnisse mbH*, Case 102/77, EU:C:1978:108, point 7. See also Grigoriadis, pp. 151.

²⁵ Judgment of 17 October 1990, *SA CNL-SUCAL NV v HAG GF AG*, C-10/89, EU:C:1990:359.

²⁶ Judgment of 17 October 1990, *SA CNL-SUCAL NV v HAG GF AG*, C-10/89, EU:C:1990:359, point 13. The Court applied those considerations also in the judgement of 22 June 1994, *IHT Internationale Heiztechnik GmbH and Uwe Danzinger v Ideal-Standard GmbH and Wabco Standard GmbH*, C-9/93, EU:C:1994:261. In a case in which the parallel import was not an issue, the Court stressed: "[T]he essential function of a trade mark is to guarantee the identity of origin of the marked goods or services to the consumer or end user by enabling him, without any possibility of confusion, to distinguish the goods or services from others which have another origin. For the trade mark to be able to fulfil its essential role in the system of undistorted competition which the Treaty seeks to establish and maintain, it must offer a guarantee that all the goods or services bearing it have been manufactured or supplied under the control of a single undertaking which is responsible for their quality." Judgement of 12 November 2002, *Arsenal Football Club plc v Matthew Reed*, C-206/01, EU:C:2002:651.

²⁷ Judgement of 22 June 1994, *IHT Internationale Heiztechnik GmbH and Uwe Danzinger v Ideal-Standard GmbH and Wabco Standard GmbH*, C-9/93, EU:C:1994:261, points 34, 37 and 38.

²⁸ Judgment of 17 October 1990, *SA CNL-SUCAL NV v HAG GF AG*, C-10/89, EU:C:1990:359, point 16.

²⁹ Judgement of 23 May 1978, *Hoffmann-La Roche & Co. AG v Centrafarm Vertriebsgesellschaft Pharmazeutischer Erzeugnisse mbH*, Case 102/77, EU:C:1978:108, point 7.

business transaction, namely the advertising function and the guarantee function of the trademark. The advertising function as a function included in the specific subject matter was first mentioned in the *Centrafarm v Winthrop* judgement.³⁰ According to the case law in which the Court dealt with the question of repackaging of trademarked goods without the authorisation of the trademark proprietor, there is an assumption that repackaging without that authorisation adversely affects the essential function and the specific subject matter of the trademark.³¹ That assumption means that there is no need to carry out a case-by-case assessment of the actual effects or repackaging.

However, parallel import cannot be prevented if the trademark rights are used in a way that constitutes disguised restriction on trade between Member States within the meaning of Article 36 of the TFEU. In order to be legal, parallel import has to meet certain conditions, *inter alia* that the presentation of the repackaged product is not made in a way to be liable to damage the reputation of the trademark or its owner.³² The said condition supports the conclusion that the Court recognises the protection of the advertising function.

Although the Court acknowledges the protection of the advertising function, that function is not protected to its full extent. The protection of the advertising function is limited to the protection of the trademark reputation or its distinctive character against possible damage or risk of damage or its unfair exploitation by the independent trader. The full definition of the protection is given in the case law relating to parallel import of luxury products. In a case dealing with relabelling, the Court said: “As to protection of the reputation of the trade mark, a third party who relabels the product must ensure that the reputation of the trade mark – and hence of its owner – does not suffer from an inappropriate presentation of the relabelled product.”³³

In the *Christian Dior v Evora* case, where the parallel importer used the trademark affixed to the products in his advertising, the Court stated: “[T]he reseller must not act unfairly in relation to the legitimate interests of the trade mark owner. He must therefore endeavour to prevent his advertising from affecting the value of the trade mark by detracting from the allure and prestigious image of the goods in question and from their aura of luxury.” Therefore, the parallel importer can use the trademark in his advertising unless “it is established that, given the specific circumstances of the case, the use of the trade mark in the reseller's advertising seriously damages the reputation of the trade mark”.³⁴

In the *BMW* judgement the Court further supplemented the definition of the specific subject matter stating: “The fact that the trade mark is used in a reseller's advertising in such a way that it may give rise to the impression that there is a commercial connection between the reseller and the trade mark proprietor, and in particular that the reseller's business is

³⁰ As it is mentioned before, in *Centrafarm v Winthrop* judgement, the specific subject matter is intended to protect the trademark proprietor against competitors wishing to take advantage of the status and reputation of the trade mark by selling products illegally bearing that trade mark. See the judgment of 31 October 1974, *Centrafarm BV and Adriaan de Peijper v Winthrop BV*, Case 16-74, EU:C:1974:115.

³¹ That conclusion results in particular from the judgement of 23 May 1978, *Hoffmann-La Roche & Co. AG v Centrafarm Vertriebsgesellschaft Pharmazeutischer Erzeugnisse mbH*, Case 102/77, EU:C:1978:108, point 12, and the judgement where the Court dealt with repackaging of pharmaceutical products. See Greigoriadis, pp. 154-158.

³² Judgment of 11 July 1996, *Bristol-Myers Squibb v Paranova A/S (C-427/93)* and *C. H. Boehringer Sohn, Boehringer Ingelheim KG and Boehringer Ingelheim A/S v Paranova A/S (C-429/93)* and *Bayer Aktiengesellschaft and Bayer Danmark A/S v Paranova A/S (C-436/93)*, joined cases C-427/93, C-429/93 and C-436/93, EU:C:1996:282.

³³ Judgment of 11 November 1997, *Frits Loendersloot, trading as F. Loendersloot Internationale Expeditie v George Ballantine & Son Ltd and Others*, C-349/95, EU:C:1997:530, point 33.

³⁴ Judgment of 4 November 1997, *Parfums Christian Dior SA and Parfums Christian Dior BV v Evora BV*, C-337/95, EU:C:1997:517, points 45 and 46.

affiliated to the trade mark proprietor's distribution network or that there is a special relationship between the two undertakings, may constitute a legitimate reason within the meaning of Article 7(2) of the directive [...] Moreover, it is contrary to the obligation to act fairly in relation to the legitimate interests of the trade mark owner and it affects the value of the trade mark by taking unfair advantage of its distinctive character or repute. It is also incompatible with the specific object of a trade mark which is, according to the case-law of the Court, to protect the proprietor against competitors wishing to take advantage of the status and reputation of the trade mark.”³⁵ The Court repeats the same conditions in its recent judgments.³⁶ From the mentioned case law it follows that the protection of the trademark reputation or distinctive character shall be granted as a standalone element, regardless of the identity function of the trademark.³⁷

With regards to the guarantee function of the trademark, which guarantees to consumers that a product meets their expectations in terms of quality or other features, e.g. specifications of use, function, equipment, guarantee or aura of luxury, it should be noted that that function is not included by the specific subject matter developed by the case law of the Court. According to the definition given in the *Centrafarm v Winthrop* judgement, the guarantee function is not protected by Article 36 TFEU.³⁸ Although in subsequent cases dealing with pharmaceutical products the Court acknowledged the protection of the guarantee function, not as a *per se* function, but within the context of the origin function,³⁹ according to its case law the trademark proprietor cannot successfully invoke a trademark right to prevent parallel importation arguing that there is a risk for the consumer to be misled as to the quality of the imported product. In fact, in the *IHT Internationale Heiztechnik v Ideal-Standard* judgement the Court clearly stated that different quality of the product cannot be a valid argument to prevent parallel importation.⁴⁰

2.3. The concept of “common origin” of trademark

The concept of “common origin” was developed in the 1970s, before the concepts of “specific subject matter” and “essential function” of trademark. The idea was to trace, at some time in the past, the common owner of the trademark that is now owned by different persons in the Member States of exportation and importation.

In the *Hag I* case the Court decided about the legality of the parallel importation of goods bearing a trademark owned by one person which was identical to the trademark owned in the Member State of importation by another. In that particular case the two trademarks had a

³⁵ Judgment of 23 February 1999, *Bayerische Motorenwerke AG (BMW) and BMW Nederland BV v Ronald Karel Deenik*, C-63/97, EU:C:1999:82, points 51 and 52.

³⁶ Judgment of 23 April 2009, *Copad SA v Christian Dior couture SA, Vincent Gladel and Société industrielle lingerie (SIL)*, C-59/08, EU:C:2009:260; Judgment of 12 July 2011, *L'Oréal SA and Others v eBay International AG and Others*, C-324/09, EU:C:2011:474; Judgment of 8 July 2010, *Portakabin Ltd and Portakabin BV v Primakabin BV*, C-558/08, EU:C:2010:416.

³⁷ Grigoriadis, L. G., p. 166-167.

³⁸ Judgment of 31 October 1974, *Centrafarm BV and Adriaan de Peijper v Winthrop BV*, Case 16-74, EU:C:1974:115.

³⁹ Judgment of 23 May 1978, *Hoffmann-La Roche & Co. AG v Centrafarm Vertriebsgesellschaft Pharmazeutischer Erzeugnisse mbH*, Case 102/77, EU:C:1978:108; Judgment of 3 December 1981, *Pfizer Inc. v Eurim-Pharm GmbH*, EU:C:1981:291; Judgment of 11 July 1996, *MPA Pharma GmbH v Rhône-Poulenc Pharma GmbH*, C-232/94, EU:C:1996:289; Judgment of 11 July 1996, *Eurim-Pharm Arzneimittel GmbH v Beiersdorf AG (C-71/94)*, *Boehringer Ingelheim KG (C-72/94)* and *Farmitalia Carlo Erba GmbH (C-73/94)*, Joined cases C-71/94, C-72/94 and C-73/94, EU:C:1996:286.

⁴⁰ Judgment of 22 June 1994, *IHT Internationale Heiztechnik GmbH and Uwe Danzinger v Ideal-Standard GmbH and Wabco Standard GmbH*, C-9/93, EU:C:1994:261.

common historical owner who assigned his trademark as regards the Member State of importation to a subsidiary established and controlled by him, but which became independent by an act carried out by a public authority. In that decision the Court stated: “[O]ne cannot allow the holder of a trade mark to rely upon the exclusiveness of a trade mark right – which may be the consequence of the territorial limitation of national legislations – with a view to prohibiting the marketing in a member state of goods legally produced in another member state under an identical trade mark having the same origin. Such a prohibition, which would legitimize the isolation of national markets, would collide with one of the essential objects of the treaty, which is to unite national markets in a single market. Whilst in such a market the indication of origin of a product covered by a trade mark is useful, information to consumers on this point may be ensured by means other than such as would affect the free movement of goods.”⁴¹

In the *Terrapin v Terranova* judgement the Court confirmed the “common origin” concept also in cases where the trademark was split by way of private agreement. The Court stated: “[T]he proprietor of an industrial or commercial property right protected by the law of a member state cannot rely on that law to prevent the importation of a product which has lawfully been marketed in another Member State by the proprietor himself or with his consent. The same applies when the right relied on is the result of the subdivision, either by voluntary act or as a result of public constraint, of a trade-mark right which originally belonged to one and the same proprietor. In these cases the basic function of the trade-mark to guarantee to consumers that the product has the same origin is already undermined by the subdivision of the original right. Even where the rights in question belong to different proprietors the protection given to industrial and commercial property by national law may not be relied on when the exercise of those rights is the purpose, the means or the result of an agreement prohibited by the treaty.”⁴²

However, this concept was abandoned in the 1990s. In the *Hag II* judgement⁴³, applying the concept of specific subject matter construed in the *Centrafarm v Winthrop* and *Hoffmann-La Roche v Centrafarm* judgements the Court stated: “For the purpose of evaluating a situation [...], the determinant factor is the absence of any consent on the part of the proprietor of the trade mark protected by national legislation to the putting into circulation in another Member State of similar products bearing an identical trade mark or one liable to lead to confusion, which are manufactured and marketed by an undertaking which is economically and legally independent of the aforesaid trade mark proprietor. In such circumstances, the essential function of the trade mark would be jeopardized if the proprietor of the trade mark could not exercise the right conferred on him by national legislation to oppose the importation of similar goods bearing a designation liable to be confused with his own trade mark, because, in such a situation, consumers would no longer be able to identify for certain the origin of the marked goods and the proprietor of the trade mark could be held responsible for the poor quality of goods for which he was in no way accountable. [...] From the date of expropriation and notwithstanding their common origin, each of the marks independently fulfilled its function, within its own territorial field of application, of guaranteeing that the marked products originated from one single source.”⁴⁴

It is clear from the above that the Court departed from the earlier developed concept of “common origin” of trademark as far as it concerned different ownership as a result of an act of public authority. The Court applied the same logic also in situations where ownership over

⁴¹ Judgment of 3 July 1974, *Van Zuylen frères v Hag AG*, Case 192-73, EU:C:1974:72, points 12, 13 and 14.

⁴² Judgment of 22 June 1976, *Terrapin (Overseas) Ltd. v Terranova Industrie CA Kapferer & Co*, Case 119-75, EU:C:1976:94, point 6.

⁴³ Judgment of 17 October 1990, *SA CNL-SUCAL NV v HAG GF AG*, C-10/89, EU:C:1990:359.

⁴⁴ Judgment of 17 October 1990, *SA CNL-SUCAL NV v HAG GF AG*, C-10/89, EU:C:1990:359, points 15, 17 and 18.

a trademark was split by way of contractual assignment.⁴⁵ It follows that the specific subject matter and the essential function of the trademark must be protected in all cases, regardless of the specific circumstances of an individual case.

3. The exhaustion rule

Pursuant to Article 7(1) of Directive 2008/95, trademark proprietor cannot preclude a third party from using a trademark in relation to a trademarked item of a product that has been put on the market within the EEA by the proprietor itself or with his consent. The legal effect of the exhaustion rule is that it exhausts all the rights conferred by the trademark that the proprietor normally has according to Article 5 of the same Directive. In other words, the parallel importer is allowed to use the trademark in marketing that specific item, in advertising and re-affixing that trademark to the item under certain conditions. Different conditions under which the exhaustion rule operates are analysed below.

3.1. Trademarked good

The Court defined the notion of good. According to its definition goods are "products which can be valued in money and which are capable, as such, of forming the subject of commercial transactions".⁴⁶ Promotional items, where the trademark proprietor affixes that mark to items that it gives away, free of charge, in order to promote the sale of its goods, are not goods in sense of the above definition. In fact, according to the case law, these items are not distributed in any way with the aim of penetrating the market.⁴⁷

For the purpose of the exhaustion rule we should differentiate the trademark product understood as the whole production line of the product, including all items of that product, from trademarked items of a product put on the EEA market. The exhaustion rule concerns only the later products, i. e. particular items of the product put on the EEA market.⁴⁸ Furthermore, for the purpose of application of the exhaustion rule, it is irrelevant whether the goods subject to parallel importation are produced in a Member State of the EEA or in a country outside the EEA. What is important is whether trademarked items of the product had been put on the market within the EEA by the trademark proprietor or with his consent.⁴⁹ Finally, the exhaustion rule applies also to trademarked products that, after they have been

⁴⁵ Judgment of 22 June 1994, *IHT Internationale Heiztechnik GmbH and Uwe Danzinger v Ideal-Standard GmbH and Wabco Standard GmbH*, C-9/93, EU:C:1994:261.

⁴⁶ Judgment of 10 December 1968, *Commission of the European Communities v Italian Republic*, Case 7-68, EU:C:1968:51; judgment of 27 April 1994, *Municipality of Almelo and others v NV Energiebedrijf Ijsselmij*, Case C-393/92, EU:C:1994:171; judgment of 23 October 1997, *Commission of the European Communities v Italian Republic*, Case C-158/94, EU:C:1997:500.

⁴⁷ Judgment of 15 January 2009, *Silberquelle GmbH v Maselli-Strickmode GmbH*, Case C-495/07, EU:C:2009:10, point 21; judgment of 12 July 2011, *L'Oréal SA and Others v eBay International AG and Others*, C-324/09, EU:C:2011:474, point 71.

⁴⁸ Judgment of 1 July 1999, *Sebago Inc. and Ancienne Maison Dubois & Fils SA v G-B Unic SA*, C-173/98, EU:C:1999:347.

⁴⁹ As the Court put it: „[I]t is of no importance for the application of Article 7 of the Trade Mark Directive whether or not the product protected by the mark has been manufactured in a non-member country if it has in any event been lawfully put on the market, in the Member State from which it has been imported, by the owner of the mark or with the owner's consent, including marketing by another company in the same group as the owner.” Judgment of 20 March 1997, *Phytheron International SA v Jean Bourdon SA*, C-352/95, EU:C:1997:170, point 21.

initially used, are reused for commercial purposes in the downstream market.⁵⁰

3.2. Putting on the market

According to the case law, “putting on the market”, as an EU law concept, must be interpreted uniformly throughout the territory of the EEA. According to the settled case law, “the need for a uniform application of European Union law and the principle of equality require that the terms of a provision of European Union law which makes no express reference to the law of the Member States for the purpose of determining its meaning and scope must normally be given an independent and uniform interpretation throughout the European Union; that interpretation must take into account the context of the provision and the objective of the relevant legislation”.⁵¹

In the *Peak Holding* judgement the Court acknowledged that “where he sells goods bearing his trade mark to a third party in the EEA, the proprietor puts those goods on the market within the meaning of Article 7(1) of the Directive”. It clarified: “[W]here the proprietor imports his goods with a view to selling them in the EEA or offers them for sale in the EEA, he does not put them on the market within the meaning of Article 7(1) of the Directive. Such acts do not transfer to third parties the right to dispose of the goods bearing the trade mark. They do not allow the proprietor to realise the economic value of the trade mark. Even after such acts, the proprietor retains his interest in maintaining complete control over the goods bearing his trade mark, in order in particular to ensure their quality.”⁵² The above shows that the preparatory actions for selling a trademarked good (importation and offer for sale) do not constitute “putting on the market”.⁵³

In order to apply the exhaustion rule, putting on the market must include, first, the transfer of the power of disposal over the trademarked good to a third party, that must be made in a way that the trademark proprietor can no longer use the trademark affixed on that particular item in question. It is an act of commercial use that allows the development of the trademark origin function through the actual distribution of the good.⁵⁴ Second, the putting on the market must include the realisation of the economic value of the good by the proprietor. In order to apply

⁵⁰ In the *Viking Gas* case the Court discussed the possibility of re-using composite bottles of gas, the shape of which was protected as a 3D trademark. The Court said: “[I]t must be pointed out that the composite bottles, which are intended for re-use a number of times, do not constitute mere packaging of the original product, but have an independent economic value and must be regarded as goods in themselves. [...] [A] balance must be struck between, on the one hand, the legitimate interest on the part of the licensee of the right to the trade mark constituted by the shape of the composite bottle and the proprietor of the marks affixed to that bottle in profiting from the rights attached to those marks and, on the other, the legitimate interests of purchasers of those bottles, in particular the interest in fully enjoying their property rights in those bottles, and the general interest in maintaining undistorted competition. [...] [T]o allow the licensee of the trade mark right constituted by the shape of the composite bottle and proprietor of the marks affixed to that bottle to prevent, on the basis of the rights relating to those marks, the bottles from being refilled would unduly reduce competition on the downstream market for the refilling of gas bottles. Judgment of 14 July 2011, *Viking Gas A/S v Kosan Gas A/S*, C-46/10, EU:C:2011:485, points 31, 33 and 34.

⁵¹ See e. g. the judgment of 21 October 2010, *Padawan SL v Sociedad General de Autores y Editores de España (SGAE)*, C-467/08, EU:C:2010:620, point 32.

⁵² Judgment of 30 November 2004, *Peak Holding AB v Axolin-Elinor AB* (formerly *Handelskompaniet Factory Outlet i Löddeköpinge AB*), C-16/03, EU:C:2004:759, points 39, 41 and 42. See also Judgment of 3 June 2010, *Coty Prestige Lancaster Group GmbH v Simex Trading AG*, C-127/09, EU:C:2010:313.

⁵³ This is also clear from the wording of the Article 5 (3) (b) and (c) of Directive 2008/95. According to that provision, on the basis of the rights conferred by a trade mark “the following, *inter alia*, may be prohibited [...] (b) offering the goods, or 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 the sign; [...]”.

⁵⁴ Grigoriadis, p. 219.

the exhaustion rule, shifting of the economic risk (profit or loss) of any onward sale of that trademarked good must occur. The economic value of the trademark in relation to that specific item is expressed in the price of that good on the market. That means that the trademark proprietor transfers the right to dispose at a price that represents the appropriate remuneration for the investment made in the economic value of the trademark that corresponds to that good.⁵⁵

However, putting on the market does not include the transfer of ownership or the payment of the price of the good in question. The notion of the right to dispose is broader than the notion of the right of ownership. So the exhaustion rule should apply in the case of sale of trademarked goods, even if the sale is stipulated under the reservation of title.⁵⁶

It should be noted that according to the case law of the Court, it is required that the good in question has been introduced into the EEA legally, not just physically.⁵⁷ In the *Peak Holding* judgement the Court stated: “[A] trade mark proprietor cannot oppose the mere entry into the [EEA], under the external transit procedure or the customs warehousing procedure, of original goods bearing that mark which had not already been put on the market in the Community previously by that proprietor or with his consent. The trade mark proprietor cannot make the placing of the goods at issue under the external transit procedure or the customs warehousing procedure conditional on the existence, at the time of the introduction of those goods into the [EEA], of a final destination already specified in a third country, possibly pursuant to a sale agreement.”⁵⁸

The situation is different when the goods have been placed under the duty suspension arrangement and stored for tax purposes, because the excise duties were not paid and consequently the goods concerned cannot be released for consumption. Although goods became imported goods as soon as they left the customs arrangement, in the *Bacardi v TOP Logistics* judgement the Court stated that “it is to be held that the actions of an economic operator [...] consisting of importing into the European Union goods without the consent of the proprietor of the trade mark and placing those goods under the duty suspension arrangement, also detaining them in a tax warehouse until the payment of import duties and their release for consumption, must be classified as using in the course of trade any sign which is identical with the trade mark in relation to goods [...] identical with those for which the

⁵⁵ Grigoriadis, p. 220.

⁵⁶ Advocate General Stix-Hackl in its opinion delivered in the *Peak Holding* case stated: “It should be pointed out in that regard that a change of ownership also leaves open the question whether the trade mark proprietor can obtain an economic benefit from the mark. In other words, the change of ownership of the marked goods must be irrelevant if the necessary economic approach is to be followed. (When goods bearing a trade mark are sold under reservation of title, the transfer of the right of disposal precedes a change in legal ownership. To that extent, the reservation of title has no effect on the exhaustion provided for under trade mark law. Where goods are transferred by way of security, it is doubtful in any event whether an act directed towards the market is involved, as the assignor remains in possession of the goods in question.) If a change of ownership is irrelevant, it becomes necessary to treat the transfer of the actual right of disposal of the goods as being the relevant point. Goods are accordingly put on the market when a third party, whose decisions in relation to the sale of the goods cannot be ascribed to the trade mark proprietor, for example because that third party is objectively independent, has acquired the actual right of disposal of the goods. (This does not as a rule apply to transactions between related companies or to transactions within a distribution system.)” Opinion of Advocate General Stix-Hackl delivered on 27 May 2004, *Peak Holding AB v Axolin-Elinor AB* (formerly *Handelskompaniet Factory Outlet i Löddeköpinge AB*), C-16/03, EU:C:2004:324, points 41 and 42.

⁵⁷ Legally means that the good in question is released for free circulation in the sense of Article 129 of the Regulation (EC) No 450/2008 of the European Parliament and of the Council of 23 April 2008 laying down the Community Customs Code (Modernised Customs Code) (OJ 2008, L 145, p. 1).

⁵⁸ Judgment of 18 October 2005, *Class International BV v Colgate-Palmolive Company and Others*, C-405/03, EU:C:2005:616, operative part.

trademark is registered” and thus may be opposed by the trademark proprietor.⁵⁹

3.3. The geographical scope of the exhaustion rule

It is evident from the case law of the Court, not only that secondary law does not permit a conclusion favourable to international exhaustion, but also that the principle of international exhaustion itself is not compatible with secondary law. In the *Silhouette* judgement the Court ruled: “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 its consent are contrary to Article 7(1) of First Council Directive 89/104/EEC of 21 December 1988 to approximate the laws of the Member States relating to trade marks, as amended by the Agreement on the European Economic Area of 2 May 1992.”⁶⁰

From that judgement it is clear that the exhaustion rule cannot be seen as a minimum standard, but rather as a maximum standard, i. e. a rule that should be applied by all Member States of the EEA.⁶¹ The Court clarified: “Accordingly, the Directive cannot be interpreted as leaving it open to the Member States to provide in their domestic law for exhaustion of the rights conferred by a trade mark in respect of products put on the market in non-member countries. This, moreover, is the only interpretation which is fully capable of ensuring that the purpose of the Directive is achieved, namely to safeguard the functioning of the internal market. A situation in which some Member States could provide for international exhaustion while others provided for Community exhaustion only would inevitably give rise to barriers to the free movement of goods and the freedom to provide services. [...] Finally, the Community authorities could always extend the exhaustion provided for by Article 7 to products put on the market in non-member countries by entering into international agreements in that sphere, as was done in the context of the EEA Agreement.”⁶² It follows that Member States are precluded from adopting the international exhaustion rule, because it is incompatible with Article 7 of Directive 2008/95. Although the Union-wide exhaustion rule can be extended by virtue of an international agreement in the light of Article 217 of the TFEU, that is not the case with accession treaties.⁶³

The question that arises after the establishment of the Union-wide exhaustion rule was the following: Is it possible to circumvent the exhaustion rule through an internet sale of trademarked product, where the products have not been put on the market within the EEA by the trademark proprietor or with his consent? The Court dealt with this question in the *L'Oréal* case where it stated: “Where goods located in a third State, which bear a trade mark registered

⁵⁹ Judgment of 16 July 2015, *TOP Logistics BV and Van Caem International BV v Bacardi Co. Ltd and Bacardi International Ltd – Bacardi & Company Ltd and Bacardi International Ltd v TOP Logistics BV and Van Caem International BV*, C-379/14,

⁶⁰ Judgment of 16 July 1998, *Silhouette International Schmied GmbH & Co. KG v Hartlauer Handelsgesellschaft mbH*, C-355/96, operative part.

⁶¹ “The Court stated: [A]lthough the third recital in the preamble to the Directive states that ‘it does not appear to be necessary at present to undertake full-scale approximation of the trade mark laws of the Member States’, the Directive none the less provides for harmonisation in relation to substantive rules of central importance in this sphere, that is to say, according to that same recital, the rules concerning those provisions of national law which most directly affect the functioning of the internal market, and that that recital does not preclude the harmonisation relating to those rules from being complete.” Judgment of 16 July 1998, *Silhouette International Schmied GmbH & Co. KG v Hartlauer Handelsgesellschaft mbH*, C-355/96, point 23.

⁶² Judgment of 16 July 1998, *Silhouette International Schmied GmbH & Co. KG v Hartlauer Handelsgesellschaft mbH*, C-355/96, points 26, 27 and 30.

⁶³ Judgment of 9 February 1982, *Polydor Limited and RSO Records Inc. v Harlequin Records Shops Limited and Simons Records Limited*, Case 270/80, EU:C:1982:43.

in a Member State of the European Union or a Community trade mark and have not previously been put on the market in the European Economic Area or, in the case of a Community trade mark, in the European Union, (i) are sold by an economic operator on an online marketplace without the consent of the trade mark proprietor to a consumer located in the territory covered by the trade mark or (ii) are offered for sale or advertised on such a marketplace targeted at consumers located in that territory, the trade mark proprietor may prevent that sale, offer for sale or advertising by virtue of the rules set out in Article 5 of First Council Directive 89/104/EEC of 21 December 1988 to approximate the laws of the Member States relating to trade marks, as amended by the Agreement on the European Economic Area of 2 May 1992, or in Article 9 of Council Regulation (EC) No 40/94 of 20 December 1993 on the Community trade mark. It is the task of the national courts to assess on a case-by-case basis whether relevant factors exist, on the basis of which it may be concluded that an offer for sale or an advertisement displayed on an online marketplace accessible from the territory covered by the trade mark is targeted at consumers in that territory.”⁶⁴

3.4. Consent of the trademark proprietor

It is common ground that the exhaustion principle applies always when the trademark proprietor himself puts on the EEA market his trademarked good. The question then arises as to whether a sale of the trademarked product to an undertaking established in the EEA which has its own legal personality, but is linked economically or legally to that proprietor, constitutes putting on the market. In other words, is there a need for applying the exhaustion rule even when the trademark proprietor sells his products to an undertaking that belongs to the same group or that is contractually obliged to resell the products in question?

In the *Peak Holding* judgement the Court said: “Article 7(1) of the Directive makes Community exhaustion subject either to a putting on the market in the EEA by the proprietor of the trade mark himself or to a putting on the market in the EEA by a third party but with the proprietor’s consent. [...] [P]utting on the market in the EEA by the proprietor presupposes a sale of the goods by him in the EEA. In the event of such a sale, Article 7(1) of the Directive does not make exhaustion of the rights conferred by the trade mark subject in addition to the proprietor’s consent to further marketing of the goods in the EEA. Exhaustion occurs solely by virtue of the putting on the market in the EEA by the proprietor. Any stipulation, in the act of sale effecting the first putting on the market in the EEA, of territorial restrictions on the right to resell the goods concerns only the relations between the parties to that act. It cannot preclude the exhaustion provided for by the Directive. [...] [So] 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.”⁶⁵ It follows that if the trademark proprietor wishes to retain the right to prohibit parallel importation, he has to sell, or as the Court put it, transfer the right to dispose of the goods to an undertaking established outside the EEA. Anything else leads to the exhaustion of trademark rights.

In the *Zino Davidoff and Levi Strauss*⁶⁶ case the Court was called to define the conditions that

⁶⁴ Judgment of 12 July 2011, *L’Oréal SA and Others v eBay International AG and Others*, C-324/09, EU:C:2011:474, operative part.

⁶⁵ Judgment of 30 November 2004, *Peak Holding AB v Axolin-Elinor AB* (formerly *Handelskompaniet Factory Outlet i Löddeköpinge AB*), C-16/03, EU:C:2004:759, points 50-56.

⁶⁶ Judgment of 20 November 2001, *Zino Davidoff SA v A & G Imports Ltd and Levi Strauss & Co. and Others v*

must be met in order to consider that the trademark proprietor has given its consent for the putting on the market within the EEA. It must be noted that the Court developed the concept of consent as an EU law concept. In the *Zino Davidoff and Levi Strauss* judgement the Court stated: "If the concept of consent were a matter for the national laws of the Member States, the consequence for trade mark proprietors could be that protection would vary according to the legal system concerned. The objective of the same protection under the legal systems of all the Member States [...] would not be attained."⁶⁷ With regard to this judgment it is obvious that the concept of "consent" is the key concept for determining the type of the exhaustion rule. It is also obvious that the Court did not want to jeopardise the outcome of the *Silhouette* judgement, i. e. the introduction of the Union-wide exhaustion rule. In fact, an interpretation that would leave it to the Member States to define the content of "consent" would lead to a *de facto* recognition of the possibility of introducing a principle of international exhaustion, relating in particular to the possibility of giving an implicit consent.⁶⁸

In relation to the question of form in which consent must be expressed, the Court stated: "In view of its serious effect in extinguishing the exclusive rights of the proprietors of the trade marks in issue in the main proceedings (rights which enable them to control the initial marketing in the EEA), consent must be so expressed that an intention to renounce those rights is unequivocally demonstrated. Such intention will normally be gathered from an express statement of consent. Nevertheless, it is conceivable that consent may, in some cases, be inferred from facts and circumstances prior to, simultaneous with or subsequent to the placing of the goods on the market outside the EEA which, in the view of the national court, unequivocally demonstrate that the proprietor has renounced his rights."⁶⁹

As regards to the implied consent the Court stated: "[I]mplied consent to the marketing within the EEA of goods put on the market outside that area cannot be inferred from the mere silence of the trade mark proprietor. Likewise, 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 place them on the market within the EEA. Finally, such consent cannot be inferred from the fact that the trade mark proprietor transferred ownership of the goods bearing the mark without imposing contractual reservations or from the fact that, according to the law governing the contract, the property right transferred includes, in the absence of such reservations, an unlimited right of resale or, at the very least, a right to market the goods subsequently within the EEA."⁷⁰ It follows that the existence of consent cannot be determined from the mere silence of the trademark proprietor. As the Court put it: "A rule of national law which proceeded upon the mere silence of the trade mark proprietor would not recognise implied consent but rather deemed consent. This would not meet the need for consent positively expressed required by Community law."⁷¹

The assessments must apply not only to trademarked products that have been put on the market for the first time outside the EEA, but also to products that have been marketed for the

Tesco Stores Ltd and Others, Joined cases C-414/99 to C-416/99, EU:C:2001:617.

⁶⁷ Judgment of 20 November 2001, *Zino Davidoff SA v A & G Imports Ltd and Levi Strauss & Co. and Others v Tesco Stores Ltd and Others*, Joined cases C-414/99 to C-416/99, EU:C:2001:617, points 42 and 43.

⁶⁸ See e.g. the opinion of Advocate General Stix-Hackl delivered on 5 April 2001, *Zino Davidoff SA v A & G Imports Ltd and Levi Strauss & Co. and Others v Tesco Stores Ltd and Others*, Joined cases C-414/99 to C-416/99, EU:C:2001:205.

⁶⁹ Judgment of 20 November 2001, *Zino Davidoff SA v A & G Imports Ltd and Levi Strauss & Co. and Others v Tesco Stores Ltd and Others*, Joined cases C-414/99 to C-416/99, EU:C:2001:617, points 45 and 46.

⁷⁰ Judgment of 20 November 2001, *Zino Davidoff SA v A & G Imports Ltd and Levi Strauss & Co. and Others v Tesco Stores Ltd and Others*, Joined cases C-414/99 to C-416/99, EU:C:2001:617, point 55-57.

⁷¹ Judgment of 20 November 2001, *Zino Davidoff SA v A & G Imports Ltd and Levi Strauss & Co. and Others v Tesco Stores Ltd and Others*, Joined cases C-414/99 to C-416/99, EU:C:2001:617, point 58.

first time within the EEA. In the *Makro Zelfbedieningsgroothandel* judgement the Court clarified: “[Th]ere is nothing, however, in the wording of the judgment in *Zino Davidoff and Levi Strauss* which gives grounds for concluding that the statements made by the Court in paragraph 46 of that judgment, concerning the facts and circumstances from which the implied consent of a trade mark proprietor may be inferred, are applicable only in a factual context such as that and cannot have general application. Thus, paragraphs 53 to 55 of that judgment, which set out the requirements to be satisfied in order to prove implied consent, are expressed in general terms, with no distinction being made in principle depending upon whether marketing first occurred outside the EEA or within it.”⁷²

As far as the scope of consent is concerned, the Court gave an answer to the question whether the exhaustion rule applies only to individual items of a certain product or to its whole production line. In the *Sebago* judgement the Court stated: “[T]he 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.”⁷³ It should be noted that in the event of a dispute, the parallel importer has to prove that each trademarked item of a product has been put on the market within the EEA by the trademark proprietor or with his consent. The burden of proof which is on the parallel importer is a very dissuasive element because it is expensive and time consuming.⁷⁴

The criterion for establishing the cases in which consent exists is the common control criterion. This criterion requires that the trademark in the exporting country and the trademark in the importing country could be used by the same person.⁷⁵ This criterion should be seen in light of the specific subject matter and essential function of the trademark. As it was mentioned earlier in the context of the trademark origin function, the trademark must guarantee that all goods are produced under the control of a single body, which is responsible for their quality.⁷⁶

According to this criterion, the case law identified a number of situations when it must be presumed that a trademark proprietor has consented that the trademarked goods are put on the market for the first time within the EEA. These situations are, firstly, when the trademarked goods have been put on the market within the EEA by an undertaking that belongs to the same group as the trademark proprietor, irrespective of the fact that the undertaking is a parent company or a subsidiary of a group, secondly, by a licensee, and thirdly, by an authorised (exclusive or selective) distributor of the trademark proprietor.⁷⁷

The breach of contract by a licensee is a specific issue. In the *Copad* judgement, the Court adopted an approach according to which the breach of contractual stipulation should imply that there is no consent given by the trademark proprietor. The Court stated: “Even though [...] the proprietor of the trade mark cannot plead that the contract was wrongly implemented in

⁷² Judgment of 15 October 2009, *Makro Zelfbedieningsgroothandel CV, Metro Cash & Carry BV and Remo Zaandam BV v Diesel SpA*, C-324/08, EU:C:2009:633, point 27.

⁷³ Judgment of 1 July 1999, *Sebago Inc. and Ancienne Maison Dubois & Fils SA v G-B Unic SA*, C-173/98, EU:C:1999:347, point 19.

⁷⁴ See the Opinion of Mr Advocate General Jacobs delivered on 25 March 1999, *Sebago Inc. and Ancienne Maison Dubois & Fils SA v G-B Unic SA*, C-173/98, EU:C:1999:173, point 30.

⁷⁵ Judgment of 22 June 1994, *IHT Internationale Heiztechnik GmbH and Uwe Danzinger v Ideal-Standard GmbH and Wabco Standard GmbH*, C-9/93, EU:C:1994:261, point 39.

⁷⁶ Judgment of 17 October 1990, *SA CNL-SUCAL NV v HAG GF AG*, C-10/89, EU:C:1990:359, point 13.

⁷⁷ Judgment of 22 June 1994, *IHT Internationale Heiztechnik GmbH and Uwe Danzinger v Ideal-Standard GmbH and Wabco Standard GmbH*, C-9/93, EU:C:1994:261.

order to invoke, in respect of the licensee, the rights conferred on him by the trade mark, the fact remains that [...] the licence agreement does not constitute the absolute and unconditional consent of the proprietor of the trade mark to the licensee putting the goods bearing the trade mark on the market. Article 8(2) of the Directive expressly enables the proprietor of the mark to invoke the rights the trade mark confers on him against a licensee where the latter contravenes certain provisions in the licence agreement. In addition [...] the list of provisions set out in Article 8(2) of the Directive is exhaustive.”⁷⁸ It follows that there is no consent of the trademark proprietor if the goods are put on the market within the EEA in contravention of the contractual provision that falls within the scope of Article 8(2) of Directive 2008/95 and that the trademark proprietor can invoke the breach of the contract against any third party.

3.5. Burden of proof

Although the question is very important in practice, secondary legislation does not provide for any rule concerning the allocation of the burden of proof. The general principle, accepted in most Member States, is that each party to the proceedings must prove the existence of the conditions for the application of the rule on which it relies upon. Also, as a procedural issue, that question should fall under national law according to the principle of national procedural autonomy. However, the Court took a different position. In fact, the allocation of the burden of proof could render dispositions of primary and secondary law ineffective. The Court also departed from the above mentioned general principle concerning the burden of proof. In cases in which the exhaustion rule was first developed, the Court did not mention the burden of proof at all. In *Zino Davidoff* and *Levi Strauss* judgements the Court just ruled that the consent of the trademark proprietor must be proved by the parallel importer alleging it.

The Court dealt with that question in the *Van Doren + Q* case.⁷⁹ The Court stated there that the rule of evidence according to which the exhaustion of the trademark right constitutes a plea in defence for a third party against whom the trade mark proprietor brings an action, so that the conditions for such exhaustion must, as a rule, be proved by the third party who relies on it, is consistent with EU law. “However, the requirements deriving from the protection of the free movement of goods enshrined, *inter alia*, in Articles 28 EC and 30 EC may mean that that rule of evidence needs to be qualified. This must be so where the rule in question would allow the proprietor of the trade mark to partition national markets and thus assist the maintenance of price differences which may exist between Member States.”⁸⁰

As the Court stated, there is a real risk of partitioning of markets, e. g. in situations where the trade mark proprietor markets his products in the EEA using an exclusive distribution system. “In such situations, if the third party were required to adduce evidence of the place where the goods were first put on the market by the trade mark proprietor or with his consent, the trade mark proprietor could obstruct the marketing of the goods purchased and prevent the third party from obtaining supplies in future from a member of the exclusive distribution network of the proprietor in the EEA, in the event that the third party was able to establish that he had obtained his supplies from that member. Accordingly, where a third party against whom proceedings have been brought succeeds in establishing that there is a real risk of partitioning

⁷⁸ Judgement of 23 April 2009, *Copad SA v Christian Dior couture SA, Vincent Gladel and Société industrielle lingerie (SIL)*, C-59/08, EU:C:2009:260, points 45-49.

⁷⁹ Judgment of 8 April 2003, *Van Doren + Q. GmbH v Lifestyle sports + sportswear Handelsgesellschaft mbH and Michael Orth*, C-244/00, EU:C:2003:204.

⁸⁰ Judgment of 8 April 2003, *Van Doren + Q. GmbH v Lifestyle sports + sportswear Handelsgesellschaft mbH and Michael Orth*, C-244/00, EU:C:2003:204, points 35-38.

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, it is for the proprietor of the trade mark to establish that the products were initially placed on the market outside the EEA by him or with his consent. If such evidence is adduced, it is for the third party to prove the consent of the trade mark proprietor to subsequent marketing of the products in the EEA.”⁸¹

To put it simply, the rule of the allocation of burden of proof is as follows: The trademark proprietor must first of all prove that the parallel importer infringed his trademark rights. Then, it is for the parallel importer to prove either: 1) that the goods in question were initially put on the market within the EEA and the existence of consent of the trademark proprietor; or 2) that the fact that he bears the burden of proof results in the partitioning of national markets. With regard to the second situation, it must be noted that the Court did not clearly specify the facts and circumstances which must be proved by the parallel importer in order to establish the existence of a real risk or market in the partitioning of national markets. However, there are attempts to clarify the problem. According to the opinion of Advocate General Stix-Hackl delivered in the same case, there is a real risk of partitioning national markets where it is impossible for the parallel importer to provide evidence that will prove the exhaustion of trademark rights or where such evidence cannot be reasonably expected to be produced by him. He considers that in relation to import and export restrictions the *Dassonville* formula should apply.⁸²

It should be recalled that in the *Dassonville* case⁸³ the Court considered the requirement of a certificate of authenticity, i. e. an official document issued by the government of the exporting country for products bearing a designation of origin. In fact, Belgian authorities instituted criminal proceedings against traders who duly acquired a consignment of Scotch whisky in free circulation in France and imported it into Belgium without being in possession of a certificate of origin from the British customs authorities. The Court was called to answer whether a national provision prohibiting the import of goods bearing a designation of origin where such goods are not accompanied by an official document issued by the government of the exporting country certifying their right to such designation constitutes a measure having an effect equivalent to a quantitative restriction within the meaning of what is now Article 34 of the TFEU. Whereas a trader, wishing to import into Belgium scotch whisky which is already in free circulation in France, can obtain such a certificate only with great difficulty, unlike the importer who imports directly from the producer country, the Court ruled that the requirement of a certificate of authenticity in question constituted a measure having an effect equivalent to a quantitative restriction as prohibited by the Treaty.⁸⁴

Furthermore, in that judgement the Court stated: “[A]n exclusive dealing agreement may adversely affect trade between Member States and can have the effect of hindering competition if the concessionaire is able to prevent parallel imports from other Member States into the territory covered by the concession by means of the combined effects of the agreement and a national law requiring the exclusive use of a certain means of proof of authenticity. For the purpose of judging whether this is the case, account must be taken not only of the rights and obligations flowing from the provisions of the agreement, but also of the legal and economic context in which it is situated and, in particular, the possible existence of

⁸¹ Judgment of 8 April 2003, *Van Doren + Q. GmbH v Lifestyle sports + sportswear Handelsgesellschaft mbH and Michael Orth*, C-244/00, EU:C:2003:204, points 39-41.

⁸² Opinion of Advocate General Stix-Hackl delivered on 18 June 2002, *Van Doren + Q. GmbH v Lifestyle sports + sportswear Handelsgesellschaft mbH and Michael Orth*, C-244/00, EU:C:2002:381, points 81 and 82.

⁸³ Judgment of 11 July 1974, *Procureur du Roi v Benoît and Gustave Dassonville*, Case 8-74, EU:C:1974:82.

⁸⁴ Judgment of 11 July 1974, *Procureur du Roi v Benoît and Gustave Dassonville*, Case 8-74, EU:C:1974:82, points 5-9.

similar agreements concluded between the same producer and concessionaires established in other Member States. In this connexion, the maintenance within a Member State of prices appreciably higher than those in force in another member state may prompt an examination as to whether the exclusive dealing agreement is being used for the purpose of preventing importers from obtaining the means of proof of authenticity of the product in question, required by national rules of the type envisaged by the question. However, the fact that an agreement merely authorizes the concessionaire to exploit such a national rule or does not prohibit him from doing so, does not suffice, in itself, to render the agreement null and void.”⁸⁵

Thus, in the light of the above mentioned judgements, in order to establish the existence of a real risk of partitioning national markets the parallel importer has to prove i) that he acquired the trademarked goods in question within the EEA, ii) that the trademark proprietor put on the market within the EEA the goods in question through an exclusive distribution system and iii) that there are price differences between two Member States. With regard to the second element, by proving the existence of the differences in prices the parallel importer activates the presumption that the trademark proprietor seeks, by using the exclusive distribution contract for prohibiting parallel importation, to maintain those differences.

If the parallel importer somehow succeeds to prove the existence of a real risk of partitioning national markets, the burden of proof switches to the trademark proprietor who must then prove that the goods in question were initially put on the market outside the EEA. The burden of proof then switches once more, and the parallel importer has to prove that the goods in question were put on the market within the EEA before they were acquired by him or that the trademark proprietor gave his consent for the importation of that good within the EEA.⁸⁶

4. The exceptions of the exhaustion rule

According to secondary legislation, the exhaustion rule does not apply where there exist legitimate reasons for the trademark proprietor to oppose further commercialisation of trademarked goods. The legitimate reasons requirement is directly connected to the concept of the specific subject matter and the essential function of the trademark. There are two situations where the exception could be applied, namely i) where the condition of the imported goods is changed or impaired after they have been put on the market for the first time and ii) where the use of the trademark by the parallel importer or the independent reseller entails damage or a risk of damage to the trademark reputation or an unfair exploitation of that reputation or the trademark distinctive character.

4.1. The change or impairment of the condition of goods

By way of principle, the trademark proprietor may oppose parallel importation of trademarked goods that are put on the market within the EEA by him or with his consent if the condition that goods are changed or impaired without his authorisation is fulfilled. There are several situations when this is the case, namely 1) when the original packing has been replaced and the trademark has been re-affixed to the new packaging, 2) when the external packaging has been replaced in order for the trademark affixed on the internal packaging to

⁸⁵ Judgment of 11 July 1974, Procureur du Roi v Benoît and Gustave Dassonville, Case 8-74, EU:C:1974:82, points 10-15.

⁸⁶ Grigoriadis, L. G., p. 319-324.

become visible, 3) when the content or the appearance of the external packaging has been altered, while the trademark affixed to that packaging has remained intact, 4) when a new label has been affixed to the original packaging, 5) when new instructions or information in the language of the Member State of destination have been added, 6) when the additional article included in the packaging has been replaced and 7) when the original trademark used in source Member State has been replaced by the trademark used by the authorised distributors in the target Member State for the same products.

The first six situations fall within the scope of the exhaustion rule if certain conditions are met, i. e. 1) it is established that the reliance on the trademark rights by the proprietor would contribute to the artificial partitioning of national markets, 2) the repackaging cannot affect the original condition of the product inside the packaging, 3) the new packaging clearly states who repackaged the product and the manufacturer name, 4) the presentation of the repackaged product is not such as to be liable to damage the trademark or its proprietors' reputation and 5) the parallel importer gives notice to the trademark proprietor before the repackaged product is put on the market and, on demand, supplies him with a specimen of that product.

The seventh situation (when the original trademark has been replaced by another) does not fall within the scope of the exhaustion rule. However, that situation falls within the scope of Article 36(2) of the TFEU, according to which the trademark proprietor cannot oppose parallel importation of such goods when the reliance on the trademark right would contribute to the artificial partitioning of national markets.⁸⁷

Although the Court provided guidance on whether these conditions are fulfilled, it is for the national courts to determine whether the mentioned conditions are met on a case-to-case basis. It should be also noted that the mentioned conditions developed by the Court in the context of parallel importation of pharmaceuticals apply to all trademarked goods that have been repackaged without the authorisation of the trademark proprietor.⁸⁸

In relation to the first condition of artificial partitioning of national markets, in the *Hoffmann-La Roche v Centrafarm* judgement the Court stated: "Where the essential function of the trademark to guarantee the origin of the product is thus protected, the exercise of his rights by the proprietor of the trade-mark in order to fetter the free movement of goods between Member States may constitute a disguised restriction within the meaning of the second sentence of article 36 of the Treaty if it is established that the use of the trade-mark right by the proprietor, having regard to the marketing system which he has adopted, will contribute to the artificial partitioning of the markets between member states."⁸⁹ But the Court did not provide any instruction on when the partitioning of national markets should be considered artificial and whether the intention of the trademark proprietor to partition nation markets is relevant. When the intention of the trademark proprietor is concerned, according to the case law of the Court it suffices to establish that the prohibiting of parallel importation would contribute objectively to the artificial partitioning of the national markets.⁹⁰

The question of when the reliance on trade mark rights by their owner in order to oppose marketing under that trade mark of products repackaged by a third party would contribute to the partitioning of markets between Member States was clarified in the *MPA Pharma*

⁸⁷ *Upjohn v. Paranova and Centrafarm v. American Home Product*

⁸⁸ Judgment of 11 November 1997, *Frits Loendersloot, trading as F. Loendersloot Internationale Expeditie v George Ballantine & Son Ltd and Others*, C-349/95, EU:C:1997:530, point 51.

⁸⁹ Judgment of 23 May 1978, *Hoffmann-La Roche & Co. AG v Centrafarm Vertriebsgesellschaft Pharmazeutischer Erzeugnisse mbH*, Case 102/77, EU:C:1978:108.

⁹⁰ Judgment of 11 July 1996, *MPA Pharma GmbH v Rhône-Poulenc Pharma GmbH*, C-232/94, EU:C:1996:289, point 24.

judgement. The Court stated that this is the case “in particular where the owner has placed an identical pharmaceutical product on the market in several Member States in various forms of packaging, and the product may not, in the condition in which it has been marketed by the trade mark owner in one Member State, be imported and put on the market in another Member State by a parallel importer. The trade mark owner cannot therefore oppose the repackaging of the product in new external packaging when the packet size used by the owner in the Member State where the importer purchased the product cannot be marketed in the Member State of importation by reason, in particular, of a rule authorizing packaging only of a certain size or a national practice to the same effect, sickness insurance rules making the reimbursement of medical expenses depend on the size of the packaging, or well-established medical prescription practices based, inter alia, on standard sizes recommended by professional groups and sickness insurance institutions. Where, in accordance with the rules and practices in force in the Member State of importation, the trade mark owner uses many different sizes of packaging in that State, the finding that one of those sizes is also marketed in the Member State of exportation is not enough to justify the conclusion that repackaging is unnecessary. Partitioning of the markets would exist if the importer were able to sell the product in only part of his market”⁹¹

The Court further specified the condition of partitioning of national markets in the *Merck, Sharp & Dohme v Paranova* judgement. The Court stated: “[T]he trade mark proprietor may oppose the repackaging if it is based solely on the parallel importer’s attempt to secure a commercial advantage. [...] [T]he trade mark proprietor may oppose replacement packaging where the parallel importer is able to reuse the original packaging for the purpose of marketing in the Member State of importation by affixing labels to that packaging. Thus, while the trade mark proprietor may oppose the parallel importer’s use of replacement packaging, that is conditional on the relabelled pharmaceutical product being able to have effective access to the market concerned. Resistance to relabelled pharmaceutical products does not always constitute an impediment to effective market access such as to make replacement packaging necessary, within the meaning of the Court’s case-law. However, there may exist on a market, or on a substantial part of it, such strong resistance from a significant proportion of consumers to relabelled pharmaceutical products that there must be held to be a hindrance to effective market access. In those circumstances, repackaging of the pharmaceutical products would not be explicable solely by the attempt to secure a commercial advantage. The purpose would be to achieve effective market access. It is for the national court to determine whether that is the case.”⁹²

The Court continued clarifying the question in the *Boehringer Ingelheim v Swingward II* judgement stating: “[T]he condition that packaging be necessary is directed only at the fact of repackaging the product – and the choice between a new carton and overstickling – for the purposes of allowing that product to be marketed in the importing State and not at the manner or style in which it has been repackaged.”⁹³ In the *Wellcome Foundation v Paranova* judgement the Court explained that “where it is established that repackaging of the pharmaceutical product is necessary for further marketing in the Member State of importation, the presentation of the packaging should be assessed only against the condition that it should not be such as to be liable to damage the reputation of the trade mark or that of

⁹¹ Judgment of 11 July 1996, *MPA Pharma GmbH v Rhône-Poulenc Pharma GmbH*, C-232/94, EU:C:1996:289, point 24-27.

⁹² Judgment of 23 April 2002, *Merck, Sharp & Dohme GmbH v Paranova Pharmazeutika Handels GmbH*, C-443/99, EU:C:2002:245, points 28-32.

⁹³ Judgment of 26 April 2007, *Boehringer Ingelheim KG and Others v Swingward Ltd and Dowelhurst Ltd*, C-348/04, EU:C:2007:249, point 38.

its proprietor.”⁹⁴

In relation to the second condition of the non-affection of the original condition of the product inside the packaging, the trademark proprietor may oppose any repackaging involving a risk of the product inside the package being exposed to tampering or to influences affecting its original condition. To determine whether that applies, account must be taken of the nature of the product and the method of repackaging.

In the *MPA Pharma* judgement the Court confirmed the criteria developed in the *Hoffmann-La Roche v Centrafarm* judgement and further clarified: “It is not possible for each hypothetical risk of isolated error to suffice to confer on the trade mark owner the right to oppose any repackaging of pharmaceutical products in new external packaging. As for an operation consisting in the addition to the packaging of new user instructions or information in the language of the Member State of importation, there is nothing to suggest that the original condition of the product inside the packaging is directly affected thereby. It should be recognized, however, that the original condition of the product inside the packaging might be indirectly affected where, for example, the external or inner packaging of the repackaged product, or a new set of user instructions or information, omits certain important information or gives inaccurate information concerning the nature, composition, effect, use or storage of the product. It is for the national court to assess whether that is so, in particular by making a comparison with the product marketed by the trade mark owner in the Member State of importation. The possibility of the importer providing certain additional information should not be excluded, however, provided that information does not contradict the information provided by the trade mark owner in the Member State of importation, that condition being met in particular in the case of different information resulting from the packaging used by the owner in the Member State of exportation.”⁹⁵

In relation to the third condition which refers to the statement of who repackaged the product it should be pointed out that it applies only to pharmaceuticals and not to all trademarked product subject to parallel importation. The objective of this condition is to protect the trademark origin function.⁹⁶ As the Court has put it in the *MPA Pharma* judgement: “[T]hat indication must be clearly shown on the external packaging of the repackaged product [...]. That implies [...] that the national court must assess whether it is printed in such a way as to be understood by a person with normal eyesight, exercising a normal degree of attentiveness.”⁹⁷ This condition also applies when an extra article is added to the original packaging. In the *Bristol-Myers Squibb v Paranova* judgement the Court stated: “where the parallel importer has added to the packaging an extra article from a source other than the trade mark owner, he must ensure that the origin of the extra article is indicated in such a way as to dispel any impression that the trade mark owner is responsible for it.”⁹⁸

In the *Orifarm and Others* judgement the Court explained its position in details. The trademark proprietor interest is that the consumer or end user is not being led to believe that the proprietor is responsible for the repackaging. That interest is fully safeguarded where the

⁹⁴ Judgment of 22 December 2008, *The Wellcome Foundation Ltd v Paranova Pharmazeutika Handels GmbH*, C-276/05, EU:C:2008:756, operative part.

⁹⁵ Judgment of 11 July 1996, *MPA Pharma GmbH v Rhône-Poulenc Pharma GmbH*, C-232/94, EU:C:1996:289, points 31-36.

⁹⁶ Judgement of 23 May 1978, *Hoffmann-La Roche & Co. AG v Centrafarm Vertriebsgesellschaft Pharmazeutischer Erzeugnisse mbH*, Case 102/77, EU:C:1978:108, point 12.

⁹⁷ Judgment of 11 July 1996, *MPA Pharma GmbH v Rhône-Poulenc Pharma GmbH*, C-232/94, EU:C:1996:289, point 43.

⁹⁸ Judgment of 11 July 1996, *Bristol-Myers Squibb v Paranova A/S* (C-427/93) and *C. H. Boehringer Sohn, Boehringer Ingelheim KG and Boehringer Ingelheim A/S v Paranova A/S* (C-429/93) and *Bayer Aktiengesellschaft and Bayer Danmark A/S v Paranova A/S* (C-436/93), joined cases C-427/93, C-429/93 and C-436/93, EU:C:1996:282, point 73.

name of the undertaking at whose order and under whose instructions the repackaging has been carried out, and which assumes responsibility for the repackaging, appears clearly on the packaging of the repackaged product. As the Court has put it: "Because that undertaking assumes full responsibility for the repackaging operations, the proprietor can enforce his rights and, where appropriate, obtain compensation if the original condition of the product within the packaging has been affected by the repackaging or the presentation of the repackaged product is liable to damage the reputation of the trade mark. It should be stated that, in such a case, an undertaking which is mentioned as the repackager on the new packaging of a repackaged product will have to answer for any damage caused by the undertaking which actually carried out the repackaging, and cannot avoid liability by arguing, in particular, that that undertaking acted contrary to its instructions."⁹⁹

In relation to the fourth condition, that the presentation must not be made in a way to be liable to damage the trademark reputation, it should be noted that the concept of reputation is wide in scope. According to the case law of the Court this concept covers not only trademarks with a reputation in the sense of Articles 4(3) and 4(a) and 5(2) of Directive 2008/95, but also common trademarks. In any event, the question whether a presentation is liable to damage the trademark reputation is for the national courts to determine on a case by case basis.¹⁰⁰

In relation to the fifth condition, that the importer must give notice to the trademark proprietor before the repacked product is put on sale, it should be noted that the aim of that condition is to alert the trademark proprietor to the possibility that the essential and the advertising function could be impaired. In the *Boehringer Ingelheim v Swingward I* judgement the Court explained: "[F]irst, [...] a parallel importer must, in any event, in order to be entitled to repackage trade-marked pharmaceutical products, fulfil the requirement of prior notice. If the parallel importer does not satisfy that requirement, the trade mark proprietor may oppose the marketing of the repackaged pharmaceutical product. Second, it is incumbent on the parallel importer itself to give notice to the trade mark proprietor of the intended repackaging. It is not sufficient that the proprietor be notified by other sources, such as the authority which issues a parallel import licence to the importer. Third, the Court has not yet ruled on the period of notice to be given to the proprietor to react to the intended repackaging of the pharmaceutical product bearing its mark. In that regard, it is self-evident that while, having regard to the purpose of notice to the trade mark proprietor, it is appropriate to allow a reasonable time for it to react to the intended repackaging, consideration must also be given to the parallel importer's interest in proceeding to market the pharmaceutical product as soon as possible after obtaining the necessary licence from the competent authority. In the event of dispute, it is for the national court to assess, in the light of all the relevant circumstances, whether the trade mark proprietor had a reasonable time to react to the intended repackaging."¹⁰¹

In the *Wellcome Foundation v Paranova* judgement the Court specified: "[I]t is for the parallel importer to furnish the proprietor of the trade mark with the information which is necessary and sufficient to enable the latter to determine whether the repackaging of the product under that trade mark is necessary in order to market it in the Member State of importation. The kind of information to be furnished depends, moreover, on the facts of each case. It cannot,

⁹⁹ Judgment of 28 July 2011, *Orifarm A/S and Others (C-400/09) and Paranova Danmark A/S and Paranova Pack A/S (C-207/10) v Merck Sharp & Dohme Corp. and Merck Sharp & Dohme BV and Merck Sharp & Dohme*, Joined cases C-400/09 and C-207/10, EU:C:2011:519, point 30.

¹⁰⁰ Judgment of 26 April 2007, *Boehringer Ingelheim KG and Others v Swingward Ltd and Dowelhurst Ltd*, C-348/04, EU:C:2007:249, point 46.

¹⁰¹ Judgment of 23 April 2002, *Boehringer Ingelheim KG, Boehringer Ingelheim Pharma KG, Glaxo Group Ltd, The Wellcome Foundation Ltd, SmithKline Beecham plc, Beecham Group plc, SmithKline & French Laboratories Ltd and Eli Lilly and Co. v Swingward Ltd and Dowelhurst Ltd*, C-143/00, EU:C:2002:246, points 63-67.

prima facie, be excluded that it may, in exceptional cases, involve disclosing the Member State of export, where the absence of that information would prevent the proprietor of the trade mark from evaluating the need to repackage. In that regard, it should be borne in mind that, in a situation where it is established that the details furnished are used by the proprietor of the trade mark to enable him to detect weaknesses in his sales organisation and thus combat parallel trade in his products, it is under the provisions of the EC Treaty on competition that those engaged in parallel trade should seek protection against action of the latter type.”¹⁰²

With regard to the condition that relates to the importer’s obligation to supply a specimen of the repacked product, it should be noted that its aim is to ensure that the above mentioned conditions are met.¹⁰³

4.2. Damage to, or risk of damage to, or unfair exploitation of the trademark reputation

It should be emphasized that various aspects of the advertising are of great practical importance for the business of parallel importers, and that parallel imports enjoy a certain amount of protection in EU law because they encourage trade and help reinforce competition.¹⁰⁴

The right to advertise trademarked goods falls within the scope of the exhaustion rule. In fact, it follows from the case law of the Court that Article 7 of the Directive 2008/95 is to be interpreted in the light of the rules of the Treaty relating to the free movement of goods, in particular Article 36. The purpose of the rule on exhaustion of rights is to prevent holders of trade marks from being allowed to partition national markets and thus facilitate the maintenance of price differences which may exist between Member States. As the Court put it in the *Christian Dior v Evora* judgement, “if the right to make use of a trade mark in order to attract attention to further commercialization were not exhausted in the same way as the right of resale, the latter would be made considerably more difficult and the purpose of the ‘exhaustion of rights’ rule laid down in Article 7 would thus be undermined”.¹⁰⁵

However, in the same judgement the Court stated: “[W]here a reseller makes use of a trade mark in order to bring the public's attention to further commercialization of trade-marked goods, a balance must be struck between the legitimate interest of the trade mark owner in being protected against resellers using his trade mark for advertising in a manner which could damage the reputation of the trade mark and the reseller's legitimate interest in being able to resell the goods in question by using advertising methods which are customary in his sector of trade. As regards the instant case, which concerns prestigious, luxury goods, the reseller must not act unfairly in relation to the legitimate interests of the trade mark owner. He must therefore endeavour to prevent his advertising from affecting the value of the trade mark by detracting from the allure and prestigious image of the goods in question and from their aura of luxury.”¹⁰⁶

¹⁰² Judgment of 22 December 2008, *The Wellcome Foundation Ltd v Paranova Pharmazeutika Handels GmbH*, C-276/05, EU:C:2008:756, points 34-36.

¹⁰³ Judgment of 11 July 1996, *MPA Pharma GmbH v Rhône-Poulenc Pharma GmbH*, C-232/94, EU:C:1996:289, point 49.

¹⁰⁴ Judgment of 16 January 1992, *Criminal proceedings against X*, C-373/90, point 12.

¹⁰⁵ Judgment 4 November 1997, *Parfums Christian Dior SA and Parfums Christian Dior BV v Evora BV*, C-337/95, EU:C:1997:517, point 37.

¹⁰⁶ Judgment 4 November 1997, *Parfums Christian Dior SA and Parfums Christian Dior BV v Evora BV*, C-337/95, EU:C:1997:517, point 44-45.

In the *BMW v Deenik* judgement the Court acknowledged the right to oppose the use of a trademark where advertising constituted an unfair exploitation of the trademark reputation. It stated: “The fact that the trade mark is used in a reseller's advertising in such a way that it may give rise to the impression that there is a commercial connection between the reseller and the trade mark proprietor, and in particular that the reseller's business is affiliated to the trade mark proprietor's distribution network or that there is a special relationship between the two undertakings, may constitute a legitimate reason within the meaning of Article 7(2) of the directive.”¹⁰⁷

The Court weighed the reseller 's obligation to act fairly in relation to the legitimate interests of the trade mark owner and stated that the advertising affects the value of the trade mark by taking unfair advantage of its distinctive character or repute. It is also incompatible with the specific object of a trade mark which is to protect the proprietor against competitors wishing to take advantage of the status and reputation of the trade mark. It stated: “If, on the other hand, there is no risk that the public will be led to believe that there is a commercial connection between the reseller and the trade mark proprietor, the mere fact that the reseller derives an advantage from using the trade mark in that advertisements for the sale of goods covered by the mark, which are in other respects honest and fair, lend an aura of quality to his own business does not constitute a legitimate reason within the meaning of Article 7(2) of the directive”.¹⁰⁸

These formulations were confirmed in the *Portakabin v Primakabin* judgement where the Court explained: “[A]ccount must be taken of the fact that the sale of second-hand goods under a trade mark is a well-established form of business, with which the average consumer will be familiar. Therefore, it cannot be held, merely on the basis of the fact that an advertiser uses another person's trade mark with additional wording indicating that the relevant goods are being resold, such as 'used' or 'second-hand', that the ad creates the impression that the reseller and the trade mark proprietor are economically linked or that the ad is seriously detrimental to the reputation of that mark”.¹⁰⁹

In the *Copad v Christian Dior* judgement the Court recognised that the manner in which the trademarked goods are marketed could damage the trademark reputation. There the Court discussed whether that is the case where the trademark proprietor has established a selective distribution system in the target Member State. The Court found that for the resale to be prevented it suffices that a risk of damage is proven. It stated: “[S]hould the national court find that sale by the licensee to a third party is unlikely to undermine the quality of the luxury goods bearing the trade mark, so that it must be considered that they were put on the market with the consent of the proprietor of the trade mark, it will be for that court to assess, taking into account the particular circumstances of each case, whether further commercialisation of the luxury goods bearing the trade mark by the third party, using methods which are customary in its sector of trade, damages the reputation of that trade mark. In this respect, it is necessary to take into consideration, in particular, the parties to whom the goods are resold and [...] the specific circumstances in which the luxury goods are put on the market.”¹¹⁰

In respect to the burden of proving the mentioned elements, in the *Boehringer Ingelheim v Swingward* judgement the Court put forward two reasons why that burden should fall on the

¹⁰⁷ Judgment of 23 February 1999, Bayerische Motorenwerke AG (BMW) and BMW Nederland BV v Ronald Karel Deenik, C-63/97, EU:C:1999:82, point 51.

¹⁰⁸ Judgment of 23 February 1999, Bayerische Motorenwerke AG (BMW) and BMW Nederland BV v Ronald Karel Deenik, C-63/97, EU:C:1999:82, point 52-53.

¹⁰⁹ Judgment of 8 July 2010, Portakabin Ltd and Portakabin BV v Primakabin BV, C-558/08, EU:C:2010:416, point 84.

¹¹⁰ Judgment of 23 April 2009, Copad SA v Christian Dior couture SA, Vincent Gladel and Société industrielle lingerie (SIL), C-59/08, EU:C:2009:260, points 56-58.

parallel importer. Firstly, “it is the repackaging of the trade-marked [...] products in itself which is prejudicial to the specific subject-matter of the mark and it is not necessary in that context to assess the actual effects of repackaging by the parallel importer”. And secondly, “if it were a matter for the national law of the Member States to determine the question of the onus of proving the existence of those conditions, which, if fulfilled, would prevent the proprietor from opposing further commercialisation of a repackaged pharmaceutical product, the consequence for trade mark proprietors could be that protection would vary according to the legal system concerned.” In that case the objective of ‘the same protection under the legal systems of all the Member States’ set out in the tenth recital in the preamble to Directive 2008/95, and described as ‘fundamental’, would not be attained.¹¹¹

In this respect the Court clarified: “As regards the condition that it must be shown that the repackaging cannot affect the original condition of the product inside the packaging, it is sufficient, however, that the parallel importer furnishes evidence that leads to the reasonable presumption that that condition has been fulfilled. This applies a fortiori also to the condition that the presentation of the repackaged product must not be such as to be liable to damage the reputation of the trade mark and of its proprietor. Where the importer furnishes such initial evidence that the latter condition has been fulfilled it will then be for the proprietor of the trade mark, who is best placed to assess whether the repackaging is liable to damage his reputation and that of the trade mark, to prove that they have been damaged.”¹¹²

5. Some open questions and observations

It is apparent that the Europe-wide exhaustion rule is well cemented in the EU legislation as well as in the case law of the Court, to the exclusion of international exhaustion.¹¹³ In order to guarantee free movement of goods within EEA market, the same exhaustion regime should apply throughout the EEA. However, things are not simply grey, and the following lines are intended to serve as a platform for discussion, rather than to offer a proposal for either conservative or radical changes.

5.1. Weaknesses within the current exhaustion scheme

There are number of issues which seem to be arising due to the over-complex EU scheme of exhaustion of trademark rights, but also to certain inconsistencies in the scheme itself. Several points are made here.

Among the major difficulties inherent in the current scheme of Europe-wide exhaustion is its effectiveness. In fact, in cases where there is no direct economic or legal link between the trademark proprietor from the exporting Member State and the trademark proprietor from the importing Member State the Court ruled that the exhaustion rule cannot apply. Abandoning the concept of “common origin” of the trade mark the Court unjustifiably, in our opinion, reinforced the position of the trade mark to the detriment of the free movement of goods. According to the more recent case law, when there is a splitting of ownership of a

¹¹¹ Judgment of 26 April 2007, *Boehringer Ingelheim KG and Others v Swingward Ltd and Dowelhurst Ltd*, C-348/04, EU:C:2007:249, point 49, 51-52.

¹¹² Judgment of 26 April 2007, *Boehringer Ingelheim KG and Others v Swingward Ltd and Dowelhurst Ltd*, C-348/04, EU:C:2007:249, point 53.

¹¹³ This is welcomed by some authors, e.g. Eric Gartinel, Mark Milford, *The Legal Aspects of the Community Trade Mark*, Kluwer, 2001, p. 148.

trademark, products lawfully purchased in the Member State of origin can be prevented from being imported to another Member State, where another trademark proprietor put on sales exactly the same products using exactly the same trademark, even though both the trademark proprietor in the exploration Member State and the trademark proprietor in the importation Member State are legally and economically linked with the same third person, i. e. have the same supplier.

Moreover, in above mentioned cases concerning repackaging the Court mixed yet another shade of grey when establishing that trademark rights were not exhausted even when that constituted a barrier to intra-Union trade, unless i) the repackaging cannot affect the original condition of the product, ii) the presentation of the repacked product is not such as to be liable to damage the reputation of the trademark and its owner, and iii) the person who repackages the products informs the trademark owner of the relabelling before the repackaged products are put on sale.

Burden of proof is another grey area in the scheme. In order to prove that a particular product is acquired in an EEA Member State, the parallel importer must disclose its source. Even if he is able to provide proof, the question is a very sensitive one, because it jeopardizes his future acquisition of that product. In fact, it is likely that the trademark proprietor, once he finds out who the weak link in the supply chain is, will take necessary measures to ensure the exclusion of the parallel importer from that national market. Moreover, the parallel importer must verify that his supplier is in fact an authorised distributor. If he is not, he must trace back the economic operator who is supposed to have put on the market the goods in question with the trademark proprietor's consent. In practice this is often a very challenging task.

It must be noted that putting on the market is frequently carried out by using strict contracts containing rules that aim at preventing parallel importation. According to the *Copad* judgement, the breach of contractual stipulation should imply that there is no consent given by the trademark proprietor. There is however a grey variation – an exception when the contract provision is null and void because of its inconsistency with Articles 101 and 102 of the TFEU. This exception is nearly-black gray because it leaves the parallel importer with the burden of proof that the agreement in question is anti-competitive in the sense of Article 101 of the TFEU or was concluded in circumstances of abuse of the dominant position of the trademark proprietor in the sense of Article 102 of the TFEU. In our opinion this task is virtually unattainable for the parallel importer, especially for small or medium enterprises that cannot afford to spend large funds on judicial proceedings.

Providing evidence on the existence of a real risk of partitioning national markets is a separate question. According to the *Van Doren + Q* judgement, the parallel importer must prove that rights conferred by the trademark in question were exercised in a way that a real risk of partitioning national markets exists. It should be noted that the formulation provided by the Court, in our view, is not sufficiently clear. In fact, the shade of grey chosen Court' for its formulation is not aligned to the shade of the requirements under Article 30 of the TFEU, and there are still doubts with respect to its applicability to the distribution system that, although not abusive, has the potential of restricting the free movement of goods. Although the Court eroded the principle of national procedural autonomy, it did not provide a clear and unequivocal rule. Instead, it provided a rule that makes reference to a very complex factual background.¹¹⁴

The burden of proof in cases concerning repackaging is a separate problem. Although the Court provided some guidance, the vagueness and ambiguity of the evidence rule is still

¹¹⁴ Rüdiger Pansch, Distribution of the burden of proof for the exhaustion defence in trade mark infringement proceedings subject to the free movement of goods, *The Europa Legal Forum* (E), 3, 2003, p. 140-147.

dusking the proceedings. Construed in the way suggested by the Court, it strengthens, in practice, the position of the trade mark holder in relation to the parallel importer. That is especially true in relation to the weak trader who, after having received an opposing letter by the trade mark proprietor, cannot afford to engage in a parallel importation venture with an uncertain outcome.

As a final point it should be noted that national approaches to exhaustion of trademark rights diverge, in particular in respect to the rules of evidence. This is especially so when national courts apply summary procedures and interim measures. It follows that future inconsistencies of case law on the issue should be expected.

5.2. Is there a need and room for more radical change?

Besides the disadvantages in the EEA regional exhaustion scheme, there is a more fundamental question to be raised concerning the exhaustion principle itself. In answering the dilemma whether to stick to the principle of regional exhaustion or convert to the principle of international exhaustion¹¹⁵ crucial is the balancing of the core conflicting interests. Although commented on many occasions before,¹¹⁶ the balancing is repeatedly subject to reconsideration – whether to give precedence to general interest of the consumers/ultimate users or to the private interests of trade mark proprietors?

In discussing the balance of the interests with regard to trade marks, their functions seem to be the starting point. Among the trade mark functions, the function of origin is the essential one. It is proposed here that trade mark origin function, which lies at the centre of the trade mark protection, could serve as a basis for the solution of the problem of the legality of parallel importation. The aim of the origin function is to guarantee the identity of the origin of the trademarked product to the consumer/ultimate user by enabling him without any possibility of confusion to distinguish that product from products which have another origin. According to this concept, the consumer/ultimate user can be certain that that trademarked product has not been subject to interference by a third party such as to affect the original condition of the produce.¹¹⁷ Moreover, the trademark, in order to fulfil its role, must offer a guarantee that all trademarked goods have been produced under the control of a single undertaking accountable for their quality.¹¹⁸ In our view, conclusion follows from the above that the trademark origin function aims at protecting, as a primary concern, the interests of consumers/end users and, as a secondary concern, the interests of the trademark proprietors. With regard to the trademark proprietor, the protection refers to the situation in which he could be considered accountable for the poor quality of a trademarked good that was not produced under his control.

The current state of law pertaining to parallel importation seems not to respect the essential

¹¹⁵ Other alternatives seem far-fetched. Although the Court showed that it is possible to extend the scope of the exhaustion rule to third countries on the basis of international agreement, its interpretation is still very narrow and does not permit the application of the principle of reciprocity. See Judgment of 9 February 1982, *Polydor Limited and RSO Records Inc. v Harlequin Records Shops Limited and Simons Records Limited*, Case 270/80, EU:C:1982:43. Moreover, it should be born in mind that international agreements widening the scope of the exhaustion rule may represent a violation of the “most favoured nation” principle required by Article 4 of TRIPS.

¹¹⁶ See e.g. Ilanah Simon, *The Functions of Trade Marks and their Role in Parallel Importation Cases – What Can the EU and Japan Learn from Each Other’s Experiences?*, *Institute of Intellectual Property Bulletin*, Vol. 16, 2007, http://www.iip.or.jp/e/e_summary/pdf/detail2006/e18_16.pdf, pp. 3-4.

¹¹⁷ Judgment of 23 May 1978, *Hoffmann-La Roche & Co. AG v Centrafarm Vertriebsgesellschaft Pharmazeutischer Erzeugnisse mbH*, Case 102/77, EU:C:1978:108.

¹¹⁸ Judgment of 17 October 1990, *SA CNL-SUCAL NV v HAG GF AG*, C-10/89, EU:C:1990:359.

function of trade mark – the origin function. It enables the trade mark holders to prevent importation of trademarked products although they are not affecting the origin function and as such are not harmful to consumers expectation in that respect. In this regard, in the *Davidoff v. A&G Imports* case Mr. Justice Laddie stated: “*Silhouette* has bestowed on a trade mark owner a parasitic right to interfere with the distribution of goods which bears little or no relationship to the proper function of the trade mark. It is difficult to believe that a properly informed legislature intended such a result, even if it is the proper construction of Article 7(1) of the Directive.”¹¹⁹ He referred to the well-known principle, which the EEA exhaustion rules as formulated by the Court are an exception to: The trademark law does not provide to the trademark holder the right to control the distribution of his trademarked product all the way to the consumer/ultimate user. Furthermore, from the concept of “specific subject matter” developed by the Court it is clear that for the origin function to be operational it makes no difference whether the trademarked goods were put first on the market within or outside the EEA. It is hard to see how a different conception of the trademark functions depending on whether the goods at issue are put on the market for the first time within the EEA or outside it, can be justified. Additionally, it has been noted that provisions that govern the legitimate reasons for excluding the application of the Europe-wide exhaustion rule and the case law related thereto reflect a change of the purpose of trademark right, in shifting the focus away from the trade mark function. As a corollary to that, the extent to which these changes warrant considering the switch from the Europe-wide exhaustion to an international exhaustion should be studied.

Unfortunately, in resolving the dilemma as to whether to opt for the international exhaustion or not one may not put into the equation the related socioeconomic effects. There is no evidence that the regime of international exhaustion, if introduced, will necessarily lead to the socioeconomic welfare or that it would undermine the existing level of it. The phenomenon of parallel importation was the subject of many economic studies. These studies tried to resolve the predicament whether the socioeconomic welfare would increase or decrease under a regime of freedom of parallel importation or under a prohibition of parallel importation. There are several elements of the phenomenon of parallel importation that are frequently analysed, i. e. price discrimination, intra-brand competition, consumer confusion and free riding. However, on the basis of these analyses a general conclusion on benefits or disadvantages arising from the parallel importation cannot be made. Parallel importation can have positive effects in retaliation to the misallocation of output by the decrease in price target countries, but it may also result in closing the markets and in lowering investments in research and development in origin countries.¹²⁰

However, relevant in the consideration is the fact that the trademark proprietor has a number of possibilities when dealing with the parallel importation, which may be used as alternatives to invoking non-exhaustion of its trade mark rights. One of the possibilities is to market the product in different markets under different trademarks. Furthermore, the trademark

¹¹⁹ High Court of Justice – Chancery Division (Patent Court) (England & Wales), Laddie J, *Zino Davidoff SA v. A&G Imports Ltd*, May 18, 1999, [1999] All ER 711, [1999] 2 C.M.L.R. 1056, 30 IIC 567 (1999), [1999] E.J.P.R. N-145. point 36.

¹²⁰ Keith E. Maskus, *Parallel Imports*, *The World Economy*, Volume 23, Issue 9, 2000, pp. 1269–1284; Keith E. Maskus, Yongmin Chen, *Parallel Imports in a Model of Vertical Distribution: Theory, Evidence and Policy*, *Pacific Economic Review*, Volume 7, Issue 2, 2002, pp. 319–334; Keith E. Maskus, Yongmin Chen, *Vertical Price Control and Parallel Imports: Theory and Evidence*, *Review of International Economics*, Volume 12, Issue 4, 2004, pp. 551–570; Clause E. Barfield, Mark A. Groombridge, *Parallel Trade in the Pharmaceutical Industry: Implications for Innovation, Consumer Welfare, and Health Policy* Article, *Fordham Intellectual Property, Media and Entertainment Law Journal*, Volume 10, Issue 1, 1999, pp. 185–264; Patricia M Danzon, *The Economics of Parallel Trade*, *Pharmacoeconomics*, Issue 13 (3), 1998, pp. 293–304; Patricia M Danzon, Adrian Towse, *Differential Pricing for Pharmaceuticals: Reconciling Access, R&D and Patents*, *International Journal of Health Economics and Management*, n. 3 (3), 2003, pp. 183–205.

proprietor can organise its chain of supply in order to cut out the wholesaler middleman by simply selling directly to commercial actor responsible for the sale to the ultimate consumer and thereby eliminating any possibility of parallel importation or diversion of stock to buyers not contemplated by the trademark proprietor.¹²¹ Also, the trademark proprietor can reduce the supply to the wholesaler deemed to sell to the parallel importer by imposing a supply “quota” system. All these strategies should be taken in consideration when balancing the opposing interests of the trademark proprietor and the parallel importer.

To this must be added the fact that the international trade is liberalising.¹²² The Council of the European Union announced that the object of the Comprehensive Economic and Trade Agreement (CETA) between Canada, on the one side, and the European Union and its Member States, on the other side is to remove more than 99% of tariffs that are currently imposed on trade between the EU and Canada. Nevertheless, it is evident from the CETA that the question of exhaustion of rights will remain untouched, leaving to the contracting parties the possibility not to apply the exhaustion rule.¹²³ As a result of giving up tariffs the contracting parties will lose their source of income, while a significant price decrease will never occur because of the distribution control exercised by trade mark holders. It should be stressed that, in our view, such a solution where the trade is free only for certain, but not for all economic operators, excessively favours trade mark proprietors.

In view of these considerations, it is submitted here that the option of transition to the international exhaustion rule should be seriously approached to and examined. This having been said, the international exhaustion rule could not be the only tone in the spectrum applicable to all trademarked products. Bearing in mind that there are significant differences between different types of products, in case of transition from the EU-wide regional exhaustion to the international exhaustion rule, a domain of a particular grey tone should be reserved to pharmaceutical and luxury goods. As to the market of pharmaceuticals, in some Member States it is characterised by national price fixing and other types of control over pharmaceutical products. In relation to these products it is justified for the trade mark proprietor to prevent regulatory-controlled pharmaceuticals to be diverted to markets other than the intended national one.

¹²¹ Office of Fair Trading, The deterrent effect of competition enforcement by the OFT: A report prepared for the OFT by Deloitte, 2007, http://webarchive.nationalarchives.gov.uk/20140402141250/http://www.oft.gov.uk/shared_oftr/reports/Evaluating-OFTs-work/oft962.pdf.

¹²² The text is available at <http://data.consilium.europa.eu/doc/document/ST-10973-2016-INIT/en/pdf>.

¹²³ Article 20.4 of CETA.