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## Reviewing the (Shrinking) Principle of Trademark Exhaustion in the European Union (Ten Years Later)

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INTERNATIONAL INTELLECTUAL  
PROPERTY SCHOLARS SERIES\*

REVIEWING THE (SHRINKING)  
PRINCIPLE OF TRADEMARK  
EXHAUSTION IN THE EUROPEAN UNION  
(TEN YEARS LATER)

IRENE CALBOLI\*\*

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\* The *Marquette Intellectual Property Law Review* International Intellectual Property Scholars Series features the works of leading national and international scholars whose areas of research include the study of important topics in international intellectual property law and policy. The 2011–2012 Editors of the *Marquette Intellectual Property Law Review* would like to thank Professor Calboli for accepting the invitation to publish in this series.

\*\* Professor of Law and Director, Intellectual Property & Technology Program, Marquette University Law School. I thank Kristin Hagen for her research assistance and the 2011–2012 members of the *Marquette Intellectual Property Law Review* for their excellent work (and patience) during the editing of this Essay. This Essay is dedicated to all the members of the *Marquette Intellectual Property Law Review* since 2001–2002. Invariably, these groups of students have enriched my life personally and professionally, and I have been honored to serve as their Faculty Advisor during these years.

## I. INTRODUCTION

Ten years ago, I published an article in the *Marquette Intellectual Property Law Review* titled, “*Trademark Exhaustion in the European Union: Community-Wide or International? The Saga Continues.*”<sup>1</sup> In that article, I described the development of the principle of trademark exhaustion in the European Union (EU) and analyzed the interplay among trademark protection, trademark territoriality, and the treatment of the parallel importation of gray market products—unauthorized genuine goods imported from foreign countries—under Article 7 of the Trademark Directive (Article 7). Article 7 was the first provision that directly addressed the exhaustion of trademark rights in the EU and harmonized the national laws of EU Member States.<sup>2</sup> During the late 1990s, the main question in this area was primarily whether the language of Article 7(1)<sup>3</sup> permits the importation into a EU Member State of gray market products exclusively when the products have been put into the market in the European Economic Area (EEA)<sup>4</sup>

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1. Irene Calboli, *Trademark Exhaustion in the European Union: Community-Wide or International? The Saga Continues*, 6 MARQ. INTELL. PROP. L. REV. 47 (2002) [hereinafter Calboli, *Trademark Exhaustion in the European Union*].

2. Article 7 of Council Directive 89/104, 1989 O.J. (L 40) 1 (EEC), now replaced by European Parliament and Council Directive 2008/95, 2008 O.J. (L 299) 25 (EC) [hereinafter Trademark Directive]. For a detailed analysis of the legislative history of the Trademark Directive and the drafting process of Article 7 on the exhaustion of trademark rights, see Calboli, *Trademark Exhaustion in the European Union*, *supra* note 1, at 60. The same principle was repeated verbatim in Article 13 of the Community Trademark Regulation. See Article 13 of Council Regulation 40/94, Dec. 20, 1993 on the Community Trade Mark, 1994 O.J. (L 011) 1 (EC), now replaced by Council Regulation 207/2009, 2009 O.J. (L 78) 1 (EC) [hereinafter CTM Regulation]. On the developments of the principle of trademark exhaustion in the European Union [hereinafter EU], see Friedrich-Karl Beier, *Industrial Property and the Free Movement of Goods in the Internal European Market*, 21 I.I.C. 131 (1990) [hereinafter Beier, *Industrial Property*]; Friedrich-Karl Beier, *The Doctrine of Exhaustion in EEC Trademark Law—Scope and Limits*, 10 I.I.C. 20 (1979) [hereinafter Beier, *Exhaustion in EEC Trademark Law*]; Herman Cohen Jehoram, *Harmonising Intellectual Property Law Within the European Community*, 23 I.I.C. 622 (1992); Ulrich Löwenheim, *Trademarks and European Community Law*, 9 I.I.C. 422 (1978); Willem Mak, *Trademarks and the European Common Market*, 6 I.I.C. 29 (1975).

3. Article 7(1) of the Trademark Directive provides that trademark owners cannot “prohibit [the] use [of a mark] in relation to goods which have been put on the market in the Community under that trade mark by the proprietor or with his consent.” Trademark Directive, *supra* note 2, at art. 7(1).

4. The adoption of the Agreement for the European Economic Area (EEA) of May 2, 1992, extended this principle to the European Free Trade Agreement (EFTA) countries joining the EEA (Norway, Iceland, and Liechtenstein). See Annex XVII and Article 2(1) of the Protocol to the Agreement on the European Economic Area, Jan. 3, 1994, O.J. (L 1) 3, which extends the effect of Article 7 of the Trademark Directive to the EEA from January 1,

or whether, instead, the provision also permits the importation of gray market products when the products have first been distributed outside the EEA.<sup>5</sup> Although Article 7(1) states that trademark rights have to be considered exhausted with respect to products that are “put on to the market in the Community” (Community-wide or EEA exhaustion), the provision does not expressly exclude, in fact, the possibility for individual Member States to extend this principle to products put into the market outside the EEA (International exhaustion).<sup>6</sup>

As I described in my 2002 article, this ambiguity led to several years of heated debate over the geographical application—Community-wide or International?—of the principle of trademark exhaustion in the EU.<sup>7</sup> In turn, because of this ambiguity, national courts repeatedly referred questions to the Court of Justice of the European Union (CJEU or Court) to clarify the interpretation of Article 7(1), namely, whether individual Member States could apply the broader standard of international exhaustion within their national territories.<sup>8</sup> In the late 1990s and early 2000s, the CJEU then issued a series of decisions, in which the Court invariably stated that Article 7(1) had to be interpreted as establishing a general principle of Community-wide trademark exhaustion to be applied in all Member States. This principle, the Court repeated, was not just a minimum standard, but the *exclusive* standard

1994. For a more elaborated analysis of the relationship between free movement of products and trademark exhaustion in free trade areas, see Irene Calboli, *Market Integration and (The Limits of) The First Sale Rule In North American and European Trademark Law*, 51 SANTA CLARA L. REV. 1241 (2011) [hereinafter Calboli, *Market Integration*].

5. See Calboli, *Trademark Exhaustion in the European Union*, *supra* note 1, at 60–66.

6. *Id.* at 49, fn. 8 (noting that the Court of Justice of the European Union “developed the principle of Community-wide exhaustion independently” and that “the laws of some countries, such as Germany, the Benelux Countries, Austria, Denmark, Sweden, and Norway, generally accepted the principle of ‘international exhaustion,’ while other European jurisdictions, such as France, Italy, and Spain, opted for the principle of ‘national exhaustion’”). See also Nicholas Shea, *Does the First Trade Mark Directive Allow International Exhaustion of Rights?*, 10 E.I.P.R. 463, 463 (1995) (recounting the disagreements over the interpretation of the provision and the geographical application of the principle of trademark exhaustion in the EU).

7. Calboli, *Trademark Exhaustion in the European Union*, *supra* note 1, at 60–66.

8. See Case C-335/96, *Silhouette Int'l Schimed GmbH & Co. KG v. Hartlauer Handelsgesellschaft mbH*, 30 I.I.C. 920 (1998); Case-173/98, *Sebago, Inc. v. GB-Unic SA*, 2 C.M.L.R. 1317 (1999); Joined Cases C-414-416/99, *Zino Davidoff SA v. A & G Imports Ltd., Levi Strauss & Co. v. Tesco Stores Ltd., and Levi Strauss & Co. v. Costco Wholesale UK Ltd.*, 2001 E.C.R. I-8691. Professor F. K. Beier, the Director of the Max-Planck Institute for Intellectual Property, Competition, and Tax Law also supported the position that individual Member States could adopt a broader standard. See Beier, *Industrial Property*, *supra* note 2, at 156–60.

for trademark exhaustion for all Member States, including those previously practicing international exhaustion within their national territories.<sup>9</sup> Despite these decisions, in the early 2000s European institutions and interested parties continued nonetheless to consider whether a change from EEA-wide exhaustion toward international trademark exhaustion could be possible or desirable within the EU (EEA).<sup>10</sup> Ultimately, however, after several rounds of consultations between European institutions, consumer associations, and representatives of the industry, no change was suggested to the text of Article 7(1). The principle of EEA-wide exhaustion was thus confirmed as the only applicable principle within the territory of the EEA<sup>11</sup> or, as it has often been defined by commentators, “Fortress Europe.”<sup>12</sup>

Hence, even if the CJEU’s decisions seemed to resolve the issues related to the territorial application of the principle of trademark exhaustion in the EU (EEA), some important developments have continued to characterize this area. Notably, during the past decade, national courts have referred additional questions to the CJEU regarding the interpretation of Article 7, primarily with respect to the interpretation of the notion of “trademark owner’s consent” in the language of Article 7(1). In particular, national courts have asked the CJEU to clarify under what circumstances trademark owners should be deemed to “have consented” to the distribution of the products into the EEA market under Article 7(1), and, thus, have exhausted the ability to

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9. See *Silhouette*, 30 I.I.C. 920. In *Silhouette*, the CJEU ruled that “[n]ational 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).” *Id.* at ¶ 31. For discussions of this case, see Jochen Pagenberg, *The Exhaustion Principle and “Silhouette” Case*, 30 I.I.C. 19 (1999); Thomas Hays, *The Silhouette Case: The European Union Moves to the Highest Common Denominator on the Gray Market Question*, 88 TRADEMARK REP. 234 (1998); Thomas Hays & Peter Hansen, *Silhouette is not the Proper Case Upon Which to Decide the Parallel Importation Question*, 1998 E.I.P.R. 277. The Court confirmed this position in *Sebago*, (1999) C.M.L.R. 1317 and in *Zino Davidoff & Levi Strauss*, 2001 E.C.R. I-8691. *But see* Case C-306/96, *Javico Int’l & Javico AG v. Yves Saint Laurent Parfums SA*, 1998 E.C.R. I-1983 (where the CJEU adopted a different position based upon the antitrust provisions of the EC Treaty).

10. Calboli, *Trademark Exhaustion in the European Union*, *supra* note 1, at 83. See also *Exhaustion of Trade Mark Rights: Working Document from the Commission Services*, available at <http://europa.eu.int/comm/dg15/intprop/indprop/exhaust.htm> (Dec. 9, 1999) [hereinafter *Commission Working Paper on Trademark Exhaustion*].

11. *Id.*

12. See, e.g., Herman Cohen Jehoram, *Prohibition of Parallel Imports Through Intellectual Property Rights*, 30 I.I.C. 495, 503 (1999); Carl Steele, “Fortresse Europe” for Trademark Owners, 1998 Trademark World 14 (Aug. 1998).

enforce their trademark rights with respect to the further distribution of those products.<sup>13</sup> In addition, national courts have asked the CJEU to clarify the language of Article 7(2) of the Trademark Directive, and specifically what constitutes a “legitimate reason” under Article 7(2) to limit the application of the principle of trademark exhaustion and to oppose the further circulation of marked products after their first sale in the market, even in instances where the products have been first distributed into the market in the EEA.<sup>14</sup>

In this Essay I continue to explore, ten years after my 2002 article, the development of the principle of trademark exhaustion in the EU.<sup>15</sup> In particular, I analyze the recent jurisprudence of the CJEU on the application of Article 7 and recount the most relevant trends in the recent CJEU’s decisions in this area. Although the focus of this Essay is primarily descriptive, I offer some critical considerations in the light of recent CJEU’s decisions. I thus argue that in its recent line of cases, the CJEU seems increasingly willing to shrink, *de facto*, the application of the principle of trademark exhaustion not solely to products imported from outside the EEA, but also to intra-EEA trade. Most notably, I highlight that the CJEU seems to have accepted a narrow interpretation of the notion of trademark owners’ “consent” under Article 7(1) of the Trademark Directive. I also argue that the CJEU seems to have adopted an alarmingly broad interpretation of what can constitute a

13. See discussion *infra* Part II.

14. Article 7(2) of the Trademark Directive provides that trademark exhaustion “shall not apply where there exist legitimate reasons for the proprietor to oppose further commercialization of the goods . . . .” Trademark Directive, *supra* note 2, at art. 7(2).

15. This Essay focuses exclusively on the analysis of the recent decisions of the Court of Justice of the European Union [hereinafter CJEU or Court] with respect to the principle of trademark exhaustion, notably the interpretation of Article 7 of the Trademark Directive. Because of its limited scope, this Essay only aims to provide a description and some limited criticism of these decisions. Similarly, this Essay neither addresses relevant issues related to the relationship between the free movement of goods and parallel trade, nor elaborates on the economic aspects, positive and negative, of parallel imports for corporations and national economies. Finally, this Essay does not address the interplay between the application of the principle trademark exhaustion and the enlargement of the European Union during the past decade. Generally, on the principle of trademark exhaustion, see Friedrich-Karl Beier, *Territoriality of Trademark Law and International Trade*, 1 I.I.C. 48 (1970) [hereinafter Beier, *Territoriality of Trademark Law*]; Christopher Heath, *Parallel Imports and International Trade*, 28 I.I.C. 623 (1997); John C. Hilke, *Free Trading or Free-Riding: An Examination of the Theories and Available Empirical Evidence on Gray Market Imports*, 31 WORLD COMPETITION L & ECON. REV. 75 (1988); Herman Cohen Jehoram, *Prohibition of Parallel Imports Through Intellectual Property Rights*, 30 I.I.C. 495 (1999); E.C. Vandenburg, *The Problem of Importation of Genuinely Marked Goods is not a Trademark Problem*, 49 TRADEMARK REP. 707 (1959).

“legitimate reason” to oppose trademark exhaustion under Article 7(2), especially to protect famous marks and luxury goods against unauthorized trade by third party importers, still within the EEA. This trend, I conclude, is troubling and may negatively impact the principle of free movement of goods within the EU/EEA. Furthermore, it grants trademark owners (primarily the owners of famous marks) an increasingly absolute right to control the distribution of their marked products in the after-sale market—precisely what the principle of trademark exhaustion is supposed to prevent—to the detriment of consumers and market competition.

## II. RECENT DECISIONS OF THE COURT OF JUSTICE OF THE EUROPEAN UNION ON TRADEMARK EXHAUSTION

In this Part, I offer an overview of the most recent decisions issued by the CJEU on the interpretation of Article 7 of the Trademark Directive with particular attention to the notion of “trademark owner’s consent” under Article 7(1) and the concept of “legitimate reasons” that trademark owners can raise to oppose the further commercialization of the marked products after their distribution into the EEA under Article 7(2).

### A. Makro Zelfbedieningsgroothandel v. Diesel S.p.A.

As I pointed out in my 2002 article,<sup>16</sup> the CJEU first addressed the interpretation of “consent” under Article 7(1) of the Trademark Directive in *Sebago*<sup>17</sup> and *Zino Davidoff and Levi Strauss*<sup>18</sup> in the late 1990s and early 2000s. These cases addressed the question of whether trademark owners could be assumed to have consented to the (unauthorized) importation of their products into the EEA after the same products had been put into the market with trademark owners’ consent outside of the EEA.<sup>19</sup> In both cases, the CJEU denied that

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16. Calboli, *Trademark Exhaustion in the European Union*, *supra* note 1, at 71–83.

17. Case-173/98, *Sebago, Inc. v. GB-Unic SA*, 2 C.M.L.R. 1317 (1999).

18. Joined Cases C-414-416/99, *Zino Davidoff SA v. A & G Imports Ltd., Levi Strauss & Co. v. Tesco Stores Ltd., and Levi Strauss & Co. v. Costco Wholesale UK Ltd.*, 2001 E.C.R. I-8691.

19. Calboli, *Trademark Exhaustion in the European Union*, *supra* note 1, at 71–83. For a criticism of these cases, see Irini A. Stamatoudi & Paul L.C. Torremans, *International Exhaustion in the European Union in the Light of “Zino Davidoff”: Contract Versus Trade Mark Law?*, 31 I.I.C. 123, 140 (2000); W. R. Cornish, *Trade Marks: Portcullis for the EEA?*, [1998] E.I.P.R. 174, 176.

trademark owners had consented to the importation of the goods into the EEA even if they had consented to the distribution of the products abroad.<sup>20</sup> In 2009, in *Makro Zelfbedieningsgroothandel*, the CJEU addressed the meaning of “consent” under Article 7(1) again, this time in the context of intra-EEA trade.<sup>21</sup> To briefly summarize the facts, Distributions Italian Fashion S.A., (Difsa), the distributor of Diesel products in Spain, Portugal, and Andorra, granted Flexi Casual the exclusive right to sell Diesel products in those countries.<sup>22</sup> Flexi, however, without the approval of Difsa or Diesel, entered into a separate licensing agreement with Cosmos World S.L. to distribute Diesel products. Cosmos then sold Diesel shoes to Makro, who in turn began selling the shoes in the Netherlands.<sup>23</sup> Diesel brought suit against Makro alleging copyright and trademark infringement on the grounds that Diesel did not consent to Cosmos’ marketing of the shoes. Both the Dutch trial court and the Court of Appeals ruled in favor of Diesel.<sup>24</sup> Makro appealed to the Hoge Raad, asserting that Diesel’s trademark rights were exhausted under Article 7(1) of the Trademark Directive because Cosmos had marketed the shoes in question with Diesel’s consent.<sup>25</sup> Unclear on how to proceed, the Hoge Raad referred to the CJEU to clarify whether consent could be “implied” in “the case where [the] goods . . . have first been placed on the market within the EEA, but not by [the trademark owner himself] or with his express consent.”<sup>26</sup>

Responding to the Hoge Raad’s question, the CJEU first repeated, as it had pointed out in *Sebago* and *Zino Davidoff and Levi Strauss*, that consent “constitutes the decisive factor”<sup>27</sup> when determining whether a trademark owner’s rights are exhausted under Article 7, and that such consent should be “unequivocally demonstrated.”<sup>28</sup> The Court also indicated that, contrary to the facts in this case, consent “will normally

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20. *Id.* (citing *Silhouette*, 1998 E.T.M.R. 539, at ¶ 31; *Sebago*, 2 C.M.L.R. 1317, at ¶ 22).

21. Case C-324/08, *Makro Zelfbedieningsgroothandel CV v. Diesel SpA.*, 2009 E.C.R. I-10019.

22. *Id.* at ¶ 8.

23. *Id.* at ¶ 11.

24. *Id.* at ¶ 14.

25. *Id.* at ¶ 15.

26. *Makro*, 2009 E.C.R. I-10019, at ¶ 17.

27. *Id.* at ¶ 22. See Amanda Easey & Rohan Massey, *Parallel Imports: Consent by Conduct*, 3 J. Intell. Prop. Law & Prac. 642 (2008).

28. *Id.* (citing Case C-59/08, *Copad, SA v. Christian Dior Couture SA*, 2009 E.C.R. I-03421, ¶ 42).



be gathered from an express statement.”<sup>29</sup> The CJEU admitted, however, that in certain instances, such as in the presence of licensing agreements, consent may be inferred “from the facts and circumstances prior to, simultaneous with or subsequent to the placing of the goods on the market in that area” when, in the view of the national court, these facts and circumstances “unequivocally demonstrate that the proprietor has renounced his exclusive rights.”<sup>30</sup> Lastly, the Court observed that, also in the case where the products were first distributed into an EEA country, national courts could assess whether trademark owners had “implicitly consented” to the first distribution of the goods (and exhausted their trademark rights) by using the same test that the CJEU had developed in *Zino Davidoff and Levi Strauss*. National courts could do so despite the fact that the CJEU developed that test with respect to products, which were first marketed outside the EEA and later imported into the EEA.<sup>31</sup> Based upon this test, the Court seemed to ultimately indicate that Diesel did not consent to Cosmos’ sale of Diesel products to Makro, that Diesel’s trademark rights were not exhausted, and that Diesel could legitimately oppose Makro’s sale in the Netherlands.<sup>32</sup>

#### B. Copad SA v. Christian Dior Couture SA

In 2009, the CJEU revisited what may constitute “consent” under Article 7(1), also in *Copad SA v. Christian Dior Couture SA*.<sup>33</sup> The main focus of this case, however, was the interplay between the principle of trademark exhaustion and the breach of a distribution clause in a licensing agreement. Notably, this case dealt with whether this breach of contract could, first, fall within the reasons to deny “trademark owners’ consent” under Article 7(1) and, second, whether it could also represent a “legitimate reason” to oppose the products’ further distribution in the EEA under Article 7(2).<sup>34</sup> In this case, SIL, an official licensee of Dior, sold luxury goods bearing the Christian Dior trademark to Copad, a discount store chain outside of the distribution network expressly defined in the license agreement between SIL and

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29. *Id.* ¶ 24 (citing *Zino Davidoff and Levi Strauss*, 2001 E.C.R. I-8691, ¶ 46; *Copad*, 2009 E.C.R. I-03421, at ¶ 42).

30. *Id.* at ¶ 23–25 (citing *Zino Davidoff and Levi Strauss*, 2001 E.C.R. I-8691 at ¶ 46).

31. *Id.* at ¶ 29.

32. *Id.* at ¶ 35.

33. Case C-59/08, *Copad SA v. Christian Dior Couture SA*, 2009 E.C.R. I-03421.

34. *See id.* at ¶ 14.

Dior,<sup>35</sup> and against Dior's express denial to such sales.<sup>36</sup> Arguing that the licensing agreement expressly prohibited sales to discount stores in order to "maintain the repute and prestige" of the mark,<sup>37</sup> Dior brought suit before the Tribunal de Grande Instance de Bobigny against both SIL and Copad for trademark infringement.<sup>38</sup> The Tribunal held, however, that the breach of the license agreement did not give rise to liability for trademark infringement, but only to liability under a breach of contract theory.<sup>39</sup> Dior appealed. The Court of Appeals affirmed the lower court on the finding that SIL's actions only gave rise to contractual liability.<sup>40</sup> Still, the Court of Appeals found that SIL's sales to Copad did not imply exhaustion of Dior's trademark rights for purposes of Article 7(1) of the Trademark Directive.<sup>41</sup> Copad appealed the finding of non-exhaustion to the Court of Cassation, and Dior cross-appealed on the basis of infringement.<sup>42</sup>

The Court of Cassation stayed proceedings and referred several questions to the CJEU for a preliminary ruling.<sup>43</sup> Specifically, with respect to Article 7(1) of the Trademark Directive, the Court of Cassation asked whether the fact that a licensee put "goods bearing a trade mark on the market in the [EEA] in disregard of a provision of the licensing agreement prohibiting, on grounds of the trade mark's prestige, sale to discount stores" needed to be interpreted as if the licensee had sold the goods "without the consent" of the trademark owner.<sup>44</sup> Should that be the case, the Court of Cassation also asked, "can the proprietor [then] invoke such a provision to oppose further commercialization of the goods, on the basis of Article 7(2) of [the Directive]?"<sup>45</sup>

35. *Id.* at ¶¶ 9–10.

36. *Id.* at ¶ 9 (The original licensing agreement stated "in order to maintain the repute and prestige of the trade mark the licensee agrees not to sell to wholesalers, buyers' collectives, discount stores, mail order companies, door-to-door sales companies or companies selling within private houses without prior written agreement from the licensor, and must make all necessary provision to ensure that the rule is complied with by its distributors or retailers.").

37. *Id.* at ¶ 8.

38. *Copad*, 2009 E.C.R. I-03421.

39. *Id.*

40. *Id.*

41. *Id.* at ¶ 12.

42. *Id.* at ¶ 13.

43. *Id.* at ¶ 14.

44. *Id.*

45. *Id.*

The CJEU's decision in this case marked one of the most important victories for owners of luxury marks in the EU in recent years. In its decision, the CJEU accepted that the allure and prestige of a mark, in addition to the material elements of a product, can directly contribute to the quality of the products.<sup>46</sup> The CJEU affirmed, in particular, that the breach of a licensing agreement, like the one between SIL and Dior, could damage the "allure and prestigious image which bestows on those goods an aura of luxury." Notably, the Court stated that this breach of contract could fall within the provisions enumerated in Article 8(2) of the Trademark Directive, which lists the causes of action that trademark owners can enforce against licensees.<sup>47</sup> This finding impacted, in turn, the Court's answers on the interpretation of Article 7. In this respect, the Court said that, generally, a licensee is considered as having put the goods onto the market with the consent of the trademark owner. Yet, the Court stated that if a licensee sells luxury goods in a manner that breaches his licensing agreement, and such breach of contract falls within Article 8(2) of the Directive, the general principle does not apply, thus trademark owners' rights cannot be considered exhausted within the meaning of Article 7(1) because trademark owners did not consent to the sale of the trademarked items.<sup>48</sup> Furthermore, the CJEU said that, with respect to the interpretation of Article 7(2), a licensee's breach of a contractual clause in the licensing agreement can qualify as a "legitimate reason" under Article 7(2) to oppose future sales of the trademarked good by a discount store if it can be established that the resale would damage the reputation of the trademark.<sup>49</sup> The Court did not give specific guidance, however, as to how to determine such damage to the reputation and left such determination to the national courts on a case-by-case basis.<sup>50</sup>

### C. Coty Prestige Lancaster Group GmbH v. Simex Trading AG

One year later, in 2010, the CJEU again addressed a question regarding the interpretation of "trademark owner's consent" under Article 7(1) in *Coty Prestige Lancaster Group*.<sup>51</sup> This time, the Court

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46. *Id.* at ¶¶ 24–26.

47. *Id.* at ¶ 30.

48. *Id.*

49. *Id.*

50. *Id.* at ¶ 31.

51. Case C-127/09, *Coty Prestige Lancaster Group GmbH v. Simex Trading AG*, 2010 E.C.R. I-04965.

specifically clarified the meaning of the language “putting on the market [with trademark owner’s consent]” in that provision.<sup>52</sup> In this case, Coty, a perfume manufacturer, marketed its products through selective distribution channels with “authorized specialist dealers”<sup>53</sup> to whom Coty provided marketing and advertising materials free of charge.<sup>54</sup> Coty expressly prohibited, however, any “commercial use on the part of the authorized specialist dealer [of the materials], particular[ly] the sale of samples, testers or miniatures.”<sup>55</sup> Regardless of these contractual clauses, Simex, a third party distributor, was able to provide two testers of Coty’s perfumes to a retail store in Germany. These testers were genuine perfumes, which had been packaged differently and had been labeled with the wording “Demonstration” and “Not for Sale.”<sup>56</sup> The testers had been supplied to Simex by a within-network Coty dealer in Singapore.<sup>57</sup> Claiming that this unauthorized sale violated its trademark rights, Coty sought an injunction against Simex in Germany on the basis that the testers were put on the EEA market for the first time without Coty’s consent.<sup>58</sup> Against this claim, Simex asserted that the testers had been put on the market with Coty’s consent, and that therefore Coty’s rights were exhausted.<sup>59</sup> The trial court ruled in favor of Simex, reasoning that Coty had transferred the testers to dealers, and thus had granted its permission to use the perfumes.<sup>60</sup> Coty appealed, and the Court of Appeals referred to the CJEU a question to clarify the meaning of the language “placement on the market” with “trademark owner’s consent” under Article 7(1) of the Trademark Directive.<sup>61</sup>

The CJEU answered the question referred by the German Court of Appeals by first repeating its conclusion in *Sebago*<sup>62</sup> that under Article 7(1) trademark rights are considered exhausted not with respect to a whole category of goods, but only with respect to the “individual items of the product which have first been put on the market in the EEA by

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52. *Id.* at ¶ 49.

53. *Id.* at ¶ 8.

54. *Id.* at ¶ 9.

55. *Id.*

56. *Id.* at ¶ 12.

57. *Id.* at ¶ 15.

58. *Id.*

59. *Id.* at ¶ 16.

60. *Id.* at ¶ 20.

61. *Id.* at ¶ 26.

62. *Id.* at ¶ 31 (citing *Sebago*, 2 C.M.L.R. 1317 at ¶¶ 19–20); see also Calboli, *Trademark Exhaustion in the European Union*, *supra* note 1, at 71.

the proprietor or with his consent.”<sup>63</sup> The Court then analyzed whether Coty’s rights in the particular products at issue were exhausted based upon this general principle. Ultimately, the CJEU concluded that Coty’s rights with regards to the products at issue were not exhausted. The Court also repeated that, in abstract, “consent” for purpose of trademark exhaustion under Article 7 can be either express or implied from the circumstances. Yet the Court noted that consent can be implied only if the circumstances unequivocally demonstrate that trademark owners have renounced their right to be first to place the goods onto the market in the EEA.<sup>64</sup> In addition, the CJEU pointed out that the issue of consent is one to be decided by the national courts. In this case, the CJEU noted that a finding of consent was precluded due to the fact that the testers’ bottles were clearly marked “not for sale,” which unequivocally indicated that Coty did not consent to their sale and thus precluded the possibility that Coty’s rights could be exhausted under Article 7(1).<sup>65</sup>

#### D. Portakabin Ltd. v. Primakabin, BV

Again in 2010, the CJEU dealt with another aspect of trademark exhaustion and addressed the interplay between the principle of exhaustion and the legal treatment of keyword advertising in the case *Portakabin Ltd. v. Primakabin, BV*.<sup>66</sup> Portakabin, a manufacturer of mobile buildings, brought actions against Primakabin, a second-hand dealer of mobile buildings, including those manufactured by Portakabin in the Netherlands.<sup>67</sup> Through the Google AdWords service, Primakabin purchased the words “portakabin,” “portacabin,” “portokabin,” and “portocabin” to drive consumers to its website during their Internet searches.<sup>68</sup> The heading that accompanied the ad on the Internet included the wording “used portakabins.”<sup>69</sup> Portakabin sought an order requiring Primakabin to cease using all signs similar to its

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63. *Coty Prestige*, 2010 E.C.R. I-04965 at ¶ 31 (stating “neither the initial provision by Coty Prestige of items of the goods at issue in the main proceedings to its authorized specialist dealer established in Singapore nor the supply by Coty Prestige to its authorized specialist dealers established in the EEA of other items of the same product may be considered to be a putting on the market within the meaning of Article 7(1).”).

64. *Id.* at ¶ 38.

65. *Id.* at ¶ 43.

66. Case C-558/08, *Portakabin Ltd. v. Primakabin BV*, 2010 E.C.R. I-06959.

67. *Id.* at ¶ 13.

68. *Id.* at ¶ 16.

69. *Id.* at ¶ 17.

mark, including all of the keywords that Primakabin had purchased for use in the AdWords system.<sup>70</sup> The Dutch trial court, however, found that Primakabin had not used the word “portakabin” to distinguish goods, and that Primakabin was not gaining an unfair advantage over Portakabin by using any of the keywords that it had purchased.<sup>71</sup> Portakabin appealed. On appeal, the Dutch Court of Appeals prohibited Primakabin from both engaging in advertising that contained the words “used portakabins,” and from linking directly to its own webpage through the use of variants of the word “portakabin.”<sup>72</sup> Portakabin appealed to the Supreme Court of the Netherlands, which stayed proceedings and referred questions to the CJEU for a preliminary ruling.<sup>73</sup> Among these questions, the Dutch Supreme Court requested clarification on the application of Article 7 of the Trademark Directive “where an offer by the advertiser . . . relates to goods which have been marketed in the European Community [by the trademark owner or with its consent].”<sup>74</sup>

Responding to the question, the CJEU first repeated the general principle that trademark rights are exhausted upon the first sale of the products in the EEA by trademark owners or with their consent.<sup>75</sup> The Court then highlighted that the Portakabin mobile buildings had been placed on the market in the EEA by Portakabin under its trademark, and that the products were being further commercialized by Primakabin.<sup>76</sup> The Court also stated that trademark owners can oppose the further commercialization of their products if there are “legitimate reasons” to do so.<sup>77</sup> In the case at issue the Court said, such “legitimate reasons” could exist only if the advertiser’s use of a keyword identical or similar to the trademark in question could seriously damage the reputation of the mark. Otherwise, a trademark owner could not prohibit an advertiser from using a keyword similar or identical to his/her trademark.<sup>78</sup> The CJEU also (unusually) gave specific directions to the national courts that would rule on this and similar cases and

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70. *Id.* at ¶ 18.

71. *Id.* at ¶ 20.

72. *Id.* at ¶ 21.

73. *Id.*

74. *Id.*

75. *Id.* at ¶ 74.

76. *Id.* at ¶ 76.

77. Trademark Directive, *supra* note 2, at art. 7(2).

78. *Portakabin*, 2010 E.C.R. I-06959 at ¶ 78.

stated that national courts cannot find a “legitimate reason” merely based on the fact that an advertiser uses another’s trademark with additional wording such as “used” or “second hand.”<sup>79</sup> The Court observed, however, that national courts are obligated to find a “legitimate reason” where the reseller has used a keyword similar or identical to a trademark and has removed or concealed the trademark from the goods.<sup>80</sup> Still, the Court added that national courts must find that “specialist” retailers (such as retailers of “used portakabins”) cannot be prohibited from using a mark for the purpose of advertising its resale activities which include the sale of other second-hand goods,<sup>81</sup> unless selling the other second-hand goods would risk seriously damaging the image or reputation of the mark.<sup>82</sup>

#### E. L’Oreal v. eBay

Most recently, in 2011, the CJEU once again dealt with the issue of cosmetics that were marked “not for sale” as in *Coty Prestige*, in the case *L’Oreal v. eBay*,<sup>83</sup> this time in the context of unauthorized sales in the online marketplace.<sup>84</sup> eBay, a famous online auction house, operates an online marketplace where goods are offered for sale and bought by third party eBay customers.<sup>85</sup> In the case at issue, several of L’Oreal’s products were placed for sale on eBay. Among these items were products that, although not meant for sale in the EEA, eventually entered into the EEA without the consent of L’Oreal.<sup>86</sup> As a general practice, L’Oreal uses a selective distribution network and controls its sales by means of contracts with authorized distributors.<sup>87</sup> Because of these unauthorized sales on eBay, L’Oreal sent eBay a letter in 2007 expressing its concerns regarding the sale of infringing products on eBay’s site, and requested that eBay take steps to investigate these concerns.<sup>88</sup> Unsatisfied with eBay’s response, L’Oreal brought an action

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79. *Id.* at ¶¶ 89–91.

80. *Id.* at ¶ 93.

81. *Id.*

82. *Id.* See also *Copad*, 2009 E.C.R. I-03421, at ¶ 24.

83. Case C-324/09, *L’Oreal SA v. eBay*, available at <http://curia.europa.eu/juris/liste.jsf?language=en&num=C-324/09>.

84. *Id.* at ¶ 1.

85. *Id.* at ¶ 2.

86. *Id.* at ¶ 28.

87. *Id.* at ¶ 27.

88. *Id.* at ¶ 32.

before the High Court of Justice of England and Wales in order to obtain a ruling that eBay users had infringed its trademarks,<sup>89</sup> and that eBay was jointly liable for the infringement.<sup>90</sup> The High Court stayed proceedings and referred several questions to the CJEU. Among these questions, the High Court asked the CJEU to clarify the application of Article 7(1) to this case, in particular with respect to the language “put in the market,” and to clarify the application of Article 7(2) and the interpretation of the language “legitimate reasons” to oppose trademark exhaustion with respect to online marketplaces such as eBay.<sup>91</sup>

In July 2011, the CJEU issued its decision on the case. With respect to the question related to the interpretation of Article 7(1) and the meaning of the language “put in the market,” the Court repeated its holding in *Coty Prestige* where it stated that the products at issue were not “put on the market” within the meaning of Article 7(1).<sup>92</sup> Specifically, the Court stated that under Article 7(1), if the goods are clearly marked “not for sale,” trademark owners’ rights cannot be considered exhausted even if the products have been first distributed within the EEA.<sup>93</sup> In addition, the Court stated that trademark owners could rely on Article 7(2) and oppose further sales of their products if the boxes or outer packaging of the products have been removed or replaced, when such removal may affect “essential information,”<sup>94</sup> such as in the case where “information relating to the identity of the manufacturer or the person responsible for marketing the cosmetic product is missing”<sup>95</sup> or when “the removal of the packaging has damaged the image of the product and, hence, the trade mark’s reputation.”<sup>96</sup> Yet, the Court also stated that the finding of such “legitimate reasons” to oppose further commercialization of the goods remains dependent on the specific facts of the case, and did not directly elaborate on any example where L’Oreal’s image could likely be damaged.<sup>97</sup>

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89. *Id.* at ¶¶ 34–35.

90. *Id.* at ¶ 36.

91. *Id.* at ¶¶ 43–44.

92. *Id.* at ¶ 65.

93. *Id.* at ¶ 72.

94. *Id.* at ¶ 83.

95. *Id.* at ¶ 81.

96. *Id.* at ¶ 83.

97. *Id.*



*F. Joined Cases Orifarm AS and Paranova AS v. Merck Sharp & Dohme*

Finally, in July 2011, the CJEU again addressed the interpretation of Article 7(2) of the Trademark Directive in the joined cases of *Orifarm* and *Paranova*.<sup>98</sup> Both cases were referred by the Danish Supreme Court and concerned the question of whether trademark rights are infringed when a pharmaceutical product is imported by a company under authorization, but the importing company asks a third party to repackage the products, even if it ultimately lists itself as the repackaging company on the products' packages.<sup>99</sup> In particular, in the cases at issue, Merck sued Orifarm and Paranova in Denmark alleging trademark infringement because the companies had wrongly identified themselves as the repackagers of the products in question and, as a result, Merck's consumers could be misled.<sup>100</sup> Merck argued that although Article 7(1) of the Trademark Directive prohibits trademark owners to further control the distribution of their products after their first sale in the market, Article 7(2) provides an exception to this rule based upon the existence of "a legitimate reason." According to Merck, the failure to disclose the identity of the actual repackager constituted such a "legitimate reason."<sup>101</sup> In the *Orifarm* case, the Danish district court ruled in favor of Merck.<sup>102</sup> Similarly, in the *Paranova* case, the same court granted an injunction prohibiting Paranova from selling the products in question where the packaging did not accurately reflect the identity of the repackager.<sup>103</sup> Both decisions were appealed to the Supreme Court, which in both instances referred a question to the CJEU.<sup>104</sup>

Interestingly, the CJEU disagreed with the Danish district court and held that defendants had not infringed Merck's marks simply because defendants had failed to disclose the identity of the repackager.<sup>105</sup> The Court mentioned some of its previous decisions in which it specified that

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98. Joined Cases C-400/09 and C-207/10, *Orifarm v. Merck and Paranova v. Merck*, available at <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:62009CJ0400:EN:HTML>.

99. *Id.* at ¶ 1.

100. *Id.*

101. *Id.* at ¶ 22.

102. *Id.* at ¶ 11.

103. *Id.* at ¶ 17.

104. *Id.* at ¶ 12.

105. *Id.* at ¶ 36.

one of the conditions under which a parallel importer should repackage pharmaceutical products was, in fact, that the new packaging clearly indicates the repackager of the product and the name of the manufacturer.<sup>106</sup> Still, in the cases at issue, the CJEU rejected Merck's argument that consumers have an interest in knowing the name of the actual repackager of the products.<sup>107</sup> Notably, the CJEU stressed that the provision of Article 7(2)—the legitimate reason to oppose the exhaustion of trademark rights—is designed to protect exclusively the interest of trademark owners, and not the consumers. Instead, the consumers should rely upon other legal instruments to protect their interests.<sup>108</sup> In these cases the Court found trademark owners' rights were sufficiently protected by the possibility of holding the repackager of the product or the distributor liable if the original condition of the product was affected by the repackaging or the repackaging was likely to damage the reputation of the mark.<sup>109</sup> To the contrary, in the absence of any material changes to the original conditions of the products, the CJEU concluded that trademark owners cannot object to the parallel import of repackaged pharmaceutical products based only on the fact that the company listed as importer may have instructed a sister company to effect the logistics of the repackaging in practice.<sup>110</sup>

### III. EEA-WIDE TRADEMARK EXHAUSTION UNDER ATTACK?

As the decisions summarized above demonstrate, the interpretation of Article 7 of the Trademark Directive and the application of the principle of trademark exhaustion in the EU continues to be the subject of heated debates and controversies.<sup>111</sup> Different from the debates of the late 1990s, however, national courts seem to have accepted as a fait

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106. *Id.* at ¶ 27 (citing Case C-276/05, *The Wellcome Foundation, Ltd. v. Paranova*, 2008 E.C.R. I-10479; Case C-348/04, *Boehringer v. Swingward, Ltd.*, 2007 E.C.R. I-03391).

107. *Id.* at ¶¶ 34–35.

108. *Id.* at ¶ 33.

109. *Id.*

110. *Id.* at ¶ 36.

111. See *Orifarm & Paranova*, available at <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:62009CJ0400:EN:HTML>; *L'Oreal*, available at <http://curia.europa.eu/juris/liste.jsf?language=en&num=C-324/09>; *Coty Prestige*, 2010 E.C.R. I-04965; *Portakabin*, 2010 E.C.R. I-06959; *Copad*, 2009 E.C.R. I-03421; *Makro*, 2009 E.C.R. I-10019. See also Eike Ullmann, *Reconciling Trade Mark Decisions of National Courts and the European Court of Justice*, 27 I.I.C. 791 (1996); INGE GOVAERE, *THE USE AND ABUSE OF INTELLECTUAL PROPERTY RIGHTS IN E.C. LAW 157* (1996); Ulrich Löwenheim, *Intellectual Property Before the European Court of Justice*, 26 I.I.C. 829 (1995).

accompli that trademark exhaustion in the EEA only applies after the first authorized sale of the products in one of the EEA Member States.<sup>112</sup> Instead, in recent years, national courts primarily asked the CJEU to clarify the meaning of the notion of “trademark owner’s consent [to the distribution of the products in the EEA]” in the language of Article 7(1),<sup>113</sup> and to elaborate on what represents a “legitimate reason” to oppose the further circulation of the marked products even after the first sale in the EEA market against the application of the principle of trademark exhaustion under Article 7(2).<sup>114</sup>

Nevertheless, the analysis of the recent jurisprudence of the CJEU continues to raise serious concerns as to the future application of the principle of trademark exhaustion, even with respect to intra-EEA parallel trade. Particularly, the recent jurisprudence of the CJEU in this area seems to indicate that the CJEU has consistently adopted an increasingly narrow interpretation of the language of Article 7 of the Trademark Directive. This narrow interpretation is effectively shrinking the application of the principle of trademark exhaustion even with respect to products legitimately distributed in the EEA.<sup>115</sup> Specifically, in its recent decisions, the CJEU seem to have accepted an interpretation of the notion of trademark owners’ “consent” under Article 7(1) that may prevent courts from finding that trademark owners have “consented” to the distribution of their products into the EEA (and have exhausted their trademark rights with respect to those products), unless trademark owners have given their “express and unequivocal” consent to such distribution.<sup>116</sup> Additionally, the recent jurisprudence of the CJEU seems to indicate that the CJEU has adopted an ever broader interpretation of what can constitute a

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112. See discussion *supra* Introduction.

113. See *L’Oreal*, available at <http://curia.europa.eu/juris/liste.jsf?language=en&num=C-324/09>; *Coty Prestige*, 2010 E.C.R. I-04965; *Copad*, 2009 E.C.R. I-03421, *Makro*, 2009 E.C.R. I-10019.

114. See *Orifarm & Paranova*, available at <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:62009CJ0400:EN:HTML>; *L’Oreal*, available at <http://curia.europa.eu/juris/liste.jsf?language=en&num=C-324/09>; *Copad*, 2009 E.C.R. I-03241.

115. See discussion *supra* Part II.

116. See *Orifarm & Paranova* available at <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:62009CJ0400:EN:HTML>; *L’Oreal*, available at <http://curia.europa.eu/juris/liste.jsf?language=en&num=C-324/09>; *Portakabin*, 2010 E.C.R. I-06959; *Coty Prestige*, 2010 E.C.R. I-04965; *Copad*, 2009 E.C.R. I-03241; *Makro*, 2009 E.C.R. I-10019.

“legitimate reason” to oppose the further commercialization of the marked products after the first sale in the EEA under Article 7(2), and thus trademark exhaustion. This is particularly pertinent in instances where trademark owners wish to protect famous marks and luxury goods against unauthorized parallel trade.<sup>117</sup>

Most notably, with respect to the questions over the interpretation of “consent” under Article 7(1), the CJEU has repeated, at first, the position that it previously articulated in the cases *Sebago* and *Zino Davidoff and Levi Strauss*.<sup>118</sup> The Court has noted that consent cannot be inferred or implied from the fact that the goods in question do not carry ad hoc labels that prohibit their resale in the EEA, or by the fact that trademark owners do not expressly impose contractual restrictions outside the EEA prohibiting the re-sale of the goods in the EEA.<sup>119</sup> Along the same lines, the CJEU has specified that the fact of making “testers” available to dealers could not be interpreted as if trademark owners had consented to the subsequent sale of those testers, particularly when the testers were marked “not for sale.”<sup>120</sup> More problematic, the CJEU has also stated that the notion of consent under Article 7(1) can extend to acts carried out by licensees or by entities economically linked to trademark owners. Specifically, the Court has accepted that a licensee’s breach of a distribution clause in a licensing agreement can be considered as if the trademark owner had not given her consent under Article 7(1) to the distribution of the products, despite the fact that the products had been provided to the licensee directly by the trademark owner and that the products were distributed under the licensing agreement.<sup>121</sup> Not surprisingly, the Court has developed this line of reasoning in cases dealing with luxury goods. Notably, the Court said, if a licensee sells luxury goods in a manner that

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117. See *Copad*, 2009 E.C.R. I-03421, at ¶¶ 25–26 (stating “[s]ince luxury goods are high-class goods, the aura of luxury emanating from them is essential in that it enables customers to distinguish them from similar goods. Therefore, an impairment to that aura of luxury is likely to affect the actual quality of those goods . . . it follows that it is conceivable that the sale of luxury goods by the licensee to third parties that are not part of the selective distribution network might affect the quality itself of those goods.”).

118. See *Zino Davidoff and Levi Strauss*, 2001 E.C.R. I-8691; *Sebago*, 2 C.M.L.R. 1317.

119. *Makro*, 2009 E.C.R. I-10019; *Copad*, 2009 E.C.R. I-03421; *Coty Prestige*, 2010 E.C.R. I-04965; *L’Oreal*, available at <http://curia.europa.eu/juris/liste.jsf?language=en&num=C-324/09>.

120. See *L’Oreal*, available at <http://curia.europa.eu/juris/liste.jsf?language=en&num=C-324/09>; *Coty Prestige*, 2010 E.C.R. I-04965.

121. *Copad*, 2009 E.C.R. I-03421.

breaches his licensing agreement, such breach of contract can preempt the application of the principle of trademark exhaustion because trademark owners did not consent to the sale of the trademarked items under Article 7(1).<sup>122</sup> Ultimately, the CJEU has merged principles of contract law with the application of the principle of trademark exhaustion to deny that trademark rights are exhausted when licensees of luxury goods sell the products to “gray marketers” in violation of a distribution clause (expressed or possibly just implied) in the licensing agreement. By adopting this position, however, the CJEU has severely weakened the effectiveness of the principle of trademark exhaustion and de facto jeopardized its application in the majority of cases dealing with gray market products distributed in the market.

Equally problematic, the CJEU has expanded the number of grounds that may constitute “legitimate reasons” to oppose the further commercialization of the products after their first sale under Article 7(2), even if such sale took place in the EEA.<sup>123</sup> Once again, this expansion has invariably benefitted trademark owners, particularly the owners of famous and luxury marks. In this respect, the CJEU has repeated, at first, that trademark owners can oppose this further commercialization of their products under Article 7(2) when the material condition of the goods has been changed or impaired.<sup>124</sup> This would be the case, the Court said, if importers removed the product’s serial or identification numbers that had been applied to the products for legitimate purposes (not solely to prevent gray market products), or if the marked products have been repackaged by importers, apart from the cases of (pharmaceutical) products where the name of the

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122. *Id.* at ¶ 51 (stating “Article 7(1) of the Directive is to be interpreted as meaning that a licensee who puts goods bearing a trade mark on the market in disregard of a provision in a license agreement does so without the consent of the proprietor of the trade mark where it is established that the provision in question is included in those listed in Article 8(2) of that Directive”).

123. Trademark Directive, *supra* note 2, at art. 7(2).

124. For previous decisions of the CJEU on the interpretation of Article 7(2), *see also* Joined Cases C-427, C-429 & C-436/93, *Bristol-Myers Squibb v. Paranova A/S*, 1996 E.C.R. I-3457, I-3536-45; Case C-379/97, *Pharmacia & Upjohn SA v. Paranova A/S*, 1999 E.C.R. I-6927; Case C-349/95, *Loendersloot v. Ballantine & Son Ltd.*, 1997 E.C.R. I-6227; Case C-143/00, *Boehringer Ingelheim KG v. Swingward Ltd.*, 2002 E.C.R. I-3759; Case C-348/04, *Boehringer Ingelheim KG v. Swingward Ltd.*, 2007 E.C.R. I-03391; Case C-276/05, *Wellcome Found. Ltd. v. Paranova Parmazeutika Handels GmbH*, 2008 E.C.R. I-10479; *see also* Ansgar Only, *Trade Marks and Parallel Importation—Recent Developments in European Law*, 30 I.I.C. 521, 516 (1999); Paul Torremans, *New Repackaging Under the Trade Mark Directive of Well-established Exhaustion Principles*, 11 E.I.P.R. 664 (1997).

repackaging company (or of the importing company which is controlling the repackaging company) is stated on the packaging and the actual quality of the products has not been altered.<sup>125</sup> The Court has additionally stated, however, that “de-branding”—the removal of the trademark from the products—can amount to a “legitimate reason” for trademark owners to object to the further commercialization of the products under Article 7(2).<sup>126</sup> Most problematically, the Court has indicated that trademark rights have not been exhausted, and trademark owners can oppose the further circulation of the goods when the use of the mark by the reseller could seriously damage the reputation of the mark.<sup>127</sup> According to the Court, this can occur, for example, when the products are sold without authorization in discounted stores, if such sales can affect the “aura of luxury” and exclusivity of the products.<sup>128</sup> Similarly, the Court has stated that, while resellers can legitimately use the marks without the authorization of trademark owners to advertise their businesses,<sup>129</sup> trademark owners can again oppose such advertising under Article 7(2) when it can affect the “aura of luxury” and exclusivity of the products.<sup>130</sup>

Not surprisingly, trademark owners, in particular the owners of

125. In *Loendersloot*, 1997 E.C.R. I-6227, the CJEU said that importers could remove labels when these labels had been placed by trademark owners simply to control distribution and prevent parallel imports. See also *Orafarm and Paranova*, available at <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:62009CJ0400:EN:HTML> (stating “the new packaging must indicate clearly the repackager of the product, that requirement is justified by the trade mark proprietor’s interest in the consumer or end user not being let to believe that the proprietor is responsible for the repackaging.”).

126. *Portakabin*, 2010 E.C.R. I-06959, at ¶ 93 (stating “the national court . . . is obliged to find that there is such a legitimate reason where the reseller, without the consent of the proprietor . . . has removed reference to that trade mark from the goods, manufactured and placed on the market by that proprietor, and replaced it with a label bearing the reseller’s name, thereby concealing the trade mark”).

127. *Copad*, 2009 E.C.R. I-3421 (stating that a trademark owner may oppose the unauthorized sale of luxury goods to discount stores by a licensee if the sale could damage the reputation of the mark). But see Case C-337/95, *Parfums Christian Dior SA v. Evora BV*, 1997 E.C.R. I-6013 (where the CJEU applied, a few years earlier, trademark exhaustion to the use of trademarks in advertising). See also *Portakabin*, 2010 E.C.R. I-06959, at ¶ 93 (stating “the national court . . . is obliged to find that a specialist reseller of second-hand goods under another person’s trade mark cannot be prohibited from using that mark to advertise . . . resale activities . . . unless the resale of those other goods . . . risks seriously damaging the image which the proprietor has succeeded in creating for its mark.”).

128. *Copad*, 2009 E.C.R. I-03421, at ¶ 60.

129. *Portakabin*, 2010 E.C.R. I-06959, at ¶ 93.

130. *Id.* at ¶ 84. See also *Copad*, 2009 E.C.R. I-03421; Case C-63/97, *BMW v. Deenik*, 1999 E.C.R. I-00905, ¶¶ 50–55.

famous and luxury marks, have welcomed the CJEU's recent decisions in this area. With the exception of the cases related to the repackaging and distribution of pharmaceutical products, the CJEU's recent decisions clearly indicate, in fact, that the Court is increasingly willing to narrow the interpretation of the principle of trademark exhaustion to protect famous marks and marks identifying luxury products. Most relevantly, the Court seems increasingly willing to grant to luxury marks owners the ability to exert additional control over the distribution of their products within the EEA and ultimately prevent gray market products even within the EEA as long as trademark owners can prove that the unauthorized distribution of these products can affect the image and reputation of the marks. Hence, although certainly greeted by trademark owners, these decisions are an unwelcome development in the jurisprudence of the CJEU and a clear threat for the correct functioning of the free movement of products in the EU/EEA. Moreover, these decisions directly go against the historical justifications of the principle of trademark exhaustion. First, products should be free to circulate into the market after their first sale because trademark owners have already realized the economic value with respect to those products. Second, trademark owners' exclusive rights should be balanced with the proprietary rights of the buyers of the marked products, who should be allowed to resell or otherwise freely dispose of their properties after they have lawfully acquired them.<sup>131</sup> Ultimately, these decisions are contrary to the historical justifications for trademark protection, which focuses on protecting consumers against confusion and competitors against unfair competition,<sup>132</sup> and only indirectly protects trademark owners' goodwill.

Against the position that "[t]rademark law . . . has never protected the ability of trademark owners to design the condition under which

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131. For an analysis of the theoretical foundation of the principle of trademark exhaustion, see TIMOTHY H. HIEBERT, *PARALLEL IMPORTATION IN U.S. TRADEMARK LAW* 1 (1994); Heath, *supra* note 15, at 623; Hilke, *supra* note 15, at 75; Charles Worth, *Free Trade Agreements and the Exhaustion of Rights Principle*, 1 E.I.P.R. 40 (1994).

132. See William M. Landes & Richard A. Posner, *Trademark Law: An Economic Perspective*, 30 J.L. & ECON. 265, 265-66 (1987) ("[T]rademark law . . . can best be explained on the hypothesis that the law is trying to promote economic efficiency."); see also Nicholas S. Economides, *The Economics of Trademarks*, 78 TRADEMARK REP. 523, 526 (1988); William P. Kratzke, *Normative Economic Analysis of Trademark Law*, 21 MEM. ST. U. L. REV. 199, 205 (1991); Anselm Kamperman Sanders & Spyros M. Maniatis, *A Consumer Trade Mark: Protection Based on Origin and Quality*, 11 E.I.P.R. 406 (1993).

products are released into the market,”<sup>133</sup> the CJEU’s recent decisions favor, instead, the corporate view that trademark law should protect primarily, if not exclusively, business goodwill, rather than consumers and market competition. This conclusion seems particularly true with respect to the CJEU’s decisions where the products at issue were sold under marks whose business success depends on an “aura of luxury” and exclusivity, which can be affected by the unauthorized sale of the products in discount stores.<sup>134</sup> If confirmed in future decisions, however, this line of reasoning from the CJEU would directly amount to overly rewarding trademark owners to the detriment of competition in the marketplace, which could result, in turn, in increased market prices for luxury products.<sup>135</sup> Ultimately, whether luxury products are bought in a high-end store or in a discount store, as long as the quality of the products has not been materially altered, products remain the same (apart from the variations in market price in the different stores). Likewise, the marks that identify the products continue to perform the traditional and legally protected trademark functions—indicating commercial origin and guaranteeing consistent products quality—regardless of the fact that the products are sold in different types of stores. As Professor Sir Robin Jacob (formerly Lord Justice of the Court of Appeal of England and Wales) said, “[s]ometime[s] [it seems] that the law may be losing a sense of reality in this area—we are, after all, only considering the use of the owners’ trademark for his goods in perfect condition.”<sup>136</sup> Undoubtedly, as Professor Sir Jacob observed, “[t]he pickle the law has got into [in this area] would . . . astonish the average consumer,”<sup>137</sup> and this is certainly most unfortunate and should be considered highly problematic for consumers, market competition,

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133. Calboli, *supra* note 4, at 1250 (citing Beier, *supra* note 15, at 61–62).

134. *Copad*, 2009 E.C.R. I-03421, at ¶ 60. In general, with respect to the risks of shifting trademark protection in favor of protecting trademarks *per se*, see also Gert-Jan Van De Kamp, *Protection of Trade Marks: The New Regime – Beyond Origin?*, 1998 E.I.P.R. 364; Helen Norman, *Perfume, Whisky and Leaping Cats of Prey: A U.K. Perspective on Three Recent Trade Mark Cases Before the European Court of Justice*, 1998 E.I.P.R. 306 (1998); Paul Walsh et al., *Parallel Imports: Labelling and Advertising Trademarked Products*, TRADEMARK WORLD, Feb. 1998, at 20.

135. See, e.g., Beier, *Territoriality of Trademark Law*, *supra* note 15, at 72 (“[T]hese economic interests are not protected by trademark law. They can only be considered within the framework of the law against unfair competition, by contract law, and the law of torts.”).

136. *Boehringer Ingelheim KG v. Swingward Ltd.*, [2004] 3 C.M.L.R. 3, ¶ 78. The Court of Appeal of England and Wales referred this case to the CJEU. See Case C-348/04, *Boehringer Ingelheim KG and Others v. Swingward Ltd and Others*, [2007] ECR I-03391.

137. *Boehringer Ingelheim*, [2004] 3 C.M.L.R. 3, ¶ 78.



and the free movement of products in the EEA.

#### IV. CONCLUSION

In my 2002 article, I concluded by saying that there was “little hope left for those who favor International exhaustion in the EU” after the decisions of the CJEU on the interpretation of the geographical application of Article 7(1). Ten years later, I conclude this Essay by saying that the recent decisions of the CJEU go even further than simply confirming the principle of EEA-wide exhaustion as the exclusive criterion to apply to trademark exhaustion in the EEA. Notably, these decisions seem to indicate the willingness of the Court to interpret the application of the principle of trademark exhaustion restrictively, even with respect to intra-EEA parallel trade. In particular, the CJEU seems to have adopted an increasingly narrow interpretation of the notion of “consent” under Article 7(1) and has consistently ruled that without trademark owners’ “unequivocally expressed consent,” products cannot be considered legitimately distributed into the EEA (and trademark rights cannot be considered exhausted). Most problematically, the CJEU has clearly sided with the owners of luxury trademarks, and has stated that trademark owners can oppose the further distribution of their products under the rule of Article 7(2), even after the first sale of these products in the EEA, when parallel importers distribute these products in ways that may detriment the image and the prestige of the products and trademark owners.

In a world where corporations are vociferously opposing gray market products in order to prevent the arbitrage of consumer goods across different jurisdictions, or simply through unauthorized retail chains and distributors in the same EEA jurisdiction, these jurisprudential developments barely come as a surprise. Still, this judicial trend is unwelcome. Trademark owners have always desired to control the distribution of their marked products after their first sale in the market, yet trademark law and policy have never intended to grant trademark owners this control. The principle of trademark exhaustion specifically opposes this control. Even before the adoption of the Trademark Directive and Article 7, European law makers and the CJEU carefully balanced the exercise of the exclusive rights of trademark owners with the principle of free movement of goods in the European internal market by recurring at first, to European competition law provisions, and then to the provisions protecting the free movement of products in the EU. Hence, the CJEU’s shift towards narrowing the

interpretation of “trademark owners’ consent” under Article 7(1), and in favor of broadening the interpretation of “legitimate reasons” under Article 7(2), directly stifles the application of the principle of trademark exhaustion under Article 7, even within the EEA. Ultimately, such shift is unwelcome as it goes against the letter, the legislative history, and the spirit of Article 7. Moreover, it negatively impacts the free movement of products within the EEA and overly rewards trademark owners to the detriment of consumers and market competition, even after trademark owners have already realized the commercial value of their marks with the first sale of the marked products in the EEA.

