JUDGMENT OF THE COURT (Grand Chamber)

30 November 2004 *

In Case C-16/03,

REFERENCE for a preliminary ruling under Article 234 EC from the Hovrätten över Skåne och Blekinge (Sweden), made by decision of 19 December 2002, received at the Court on 15 January 2003, in the proceedings

Peak Holding AB

v

Axolin-Elinor AB, formerly Handelskompaniet Factory Outlet i Löddeköpinge AB,

THE COURT (Grand Chamber),

composed of: V. Skouris, President, P. Jann, C.W.A. Timmermans, A. Rosas and R. Silva de Lapuerta, Presidents of Chambers, C. Gulmann (Rapporteur), J.-P. Puissochet, R. Schintgen and J.N. Cunha Rodrigues, Judges,

* Language of the case: Swedish.

Advocate General: C. Stix-Hackl,
Registrar: H. von Holstein, Deputy Registrar,

having regard to the written procedure and further to the hearing on 24 March 2004,

after considering the observations submitted on behalf of:

— Peak Holding AB, by G. Gozzo, advokat,

— Axolin-Elinor AB, by K. Azelius, advokat, and M. Palm, jur. kand.,

— the Swedish Government, by K. Wistrand and A. Kruse, acting as Agents,

— the Commission of the European Communities, by N.B. Rasmussen and K. Simonsson, acting as Agents,

after hearing the Opinion of the Advocate General at the sitting on 27 May 2004,

gives the following

Judgment

1 This reference for a preliminary ruling concerns the interpretation of 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 (OJ 1989 L 40, p. 1), as amended by the Agreement on the European Economic Area of 2 May 1992 (OJ 1994 L 1, p. 3) ('the Directive').

2 The reference was made in the course of proceedings between Peak Holding AB ('Peak Holding') and Axolin-Elinor AB ('Axolin-Elinor'), formerly Handelskompaniet Factory Outlet i Löddeköpinge AB ('Factory Outlet') at the material time, concerning the manner in which Factory Outlet marketed a consignment of clothing bearing the Peak Performance trade mark, of which Peak Holding is the proprietor.

Legal background

3 Article 5 of the Directive, entitled 'Rights conferred by a trade mark', reads as follows:

'1. The registered trade mark shall confer on the proprietor exclusive rights therein. The proprietor shall be entitled to prevent all third parties not having his consent from using in the course of trade:

(a) any sign which is identical with the trade mark in relation to goods or services which are identical with those for which the trade mark is registered;

...

3. The following, inter alia, may be prohibited under [paragraph 1]:

...

(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 ... the goods under the sign;

...'

4 Article 7 of the Directive, in its original version, entitled 'Exhaustion of the rights conferred by a trade mark', provided:

'1. The trade mark shall not entitle the proprietor to prohibit its use in relation to goods which have been put on the market in the Community under that trade mark by the proprietor or with his consent.

...'

5 In accordance with Article 65(2) of the Agreement on the European Economic Area ('the EEA') in conjunction with point 4 of Annex XVII to that Agreement, the original version of Article 7(1) of Directive 89/104 was amended for the purposes of that Agreement, the expression 'in the Community' being replaced by 'in a Contracting Party'.

The main proceedings and the questions referred for a preliminary ruling

6 Peak Holding, a company in the Danish group IC-Companys, is the proprietor inter alia of the trade mark Peak Performance. The right to use that trade mark was granted to Peak Performance Production AB ('Peak Performance Production'), a company associated with that group. That company produces and sells clothing and accessories under that trade mark in Sweden and other countries.

7 At the material time Factory Outlet, a company governed by Swedish law, carried out in shops in Sweden direct sales of clothing and other items, largely trade-marked goods which were parallel imports or reimports or were obtained outside the normal distribution channels of the proprietor of the trade mark concerned.

8 In late 2000, Factory Outlet marketed, in particular, a consignment of approximately 25 000 garments under the Peak Performance trade mark, after placing advertisements in the press offering the sale of those articles at half price.

9 The articles came from the Peak Performance collections for the years 1996 to 1998. They had been manufactured outside the EEA on behalf of that company and had been imported into the EEA in order to be sold there.

10 According to Factory Outlet, the garments offered for sale from 1996 to 1998 had been offered in shops belonging to independent resellers, while, according to Peak Holding, they had been offered in Peak Performance Production's shops.

11 In November and December 1999, all the garments in the consignment formed part of those offered for sale to final consumers in Copenhagen (Denmark) in the Base Camp store supplied by Carli Gry Danmark A/S, a sister company of Peak Performance Production. The consignment thus consisted of goods which had remained unsold after the sales.

12 Peak Performance Production sold that consignment to COPAD International ('COPAD'), an undertaking established in France. According to Peak Holding, the contract concluded on that occasion provided that the consignment was not to be resold in European countries other than Russia and Slovenia, with the exception of 5% of the total quantity, which could be sold in France. Factory Outlet contested the existence of such a restriction, and submitted that, in any event, it had no knowledge of it when it purchased the consignment.

13 Factory Outlet asserted that it had acquired the consignment from Truefit Sweden AB, a company governed by Swedish law.

14 It is common ground that the consignment did not leave the EEA from the time when it left Peak Performance Production's warehouses in Denmark until it was delivered to Factory Outlet in Sweden.

15 Peak Holding, claiming that the conditions of marketing chosen by Factory Outlet, in particular its advertisements, infringed Peak Holding's trade mark rights, brought an action in the Lunds tingsrätt (Lund District Court) (Sweden) on 9 October 2000. It asked that court to order that Factory Outlet pay damages, that it be prohibited from marketing and selling the clothing and other articles from the consignment in question, and that those goods be destroyed.

16 Factory Outlet contended that Peak Holding's claims should be dismissed. It submitted that the goods at issue had been put on the market in the EEA by Peak Holding, so that it was not entitled to prohibit the use of the trade mark on the sale of the goods.

17 Factory Outlet submitted, first, that the goods had been put on the market by virtue of their import into the internal market by Peak Performance Production and of payment of the customs duties on them, with the intention of selling the goods in the Community. It submitted, second, that the goods had been put on the market by virtue of having been offered for sale by independent resellers. It submitted, third, that they had been put on the market by virtue of having been marketed by Peak Performance Production in its own shops and in the Base Camp store and that, in those circumstances, they had been offered to consumers. It argued, fourth, that, in any event, the goods had been put on the market by virtue of having been sold to COPAD, regardless of whether they had been sold with or without a restriction on reselling in the internal market.

18 Peak Holding disputed that the goods had been put on the market by or with the consent of the proprietor of the trade mark. It argued that, even if the trade mark rights had been exhausted by reason of the goods having been offered for sale in the

Base Camp store, that exhaustion had been interrupted and the trade mark rights restored after the goods had been returned to the warehouses.

19 The Lunds tingsrätt dismissed the application, taking the view that the goods had in fact been marketed by reason of being made available to consumers in the Base Camp store and that the rights conferred by the trade mark could not have been restored after that had occurred.

20 Peak Holding appealed to the referring court against the judgment of the Lunds tingsrätt.

21 Since it considered that the outcome of the dispute between Peak Holding and Axolin-Elinor depended on the interpretation of the expression 'put on the market' in Article 7(1) of the Directive, the Hovrätten över Skåne och Blekinge decided to stay the proceedings and refer the following questions to the Court for a preliminary ruling:

'1. Are goods to be regarded as having been put on the market by virtue of the fact that the proprietor of the trade mark:

(a) has imported them into the common market and paid import duty on them, with the intention that they be sold there?

(b) has offered them for sale in the trade mark proprietor's own shops or those of a related company within the common market but a sale of the goods has not taken place?

2. If goods have been put on the market under one of the above alternatives and exhaustion of the trade mark rights thereby occurs without there having been a sale of the goods, can a trade mark proprietor interrupt exhaustion by returning the goods to a warehouse?

3. Are goods to be regarded as having been put on the market by virtue of the fact that they have been sold by the trade mark proprietor to another company in the internal market, if, upon the sale, the trade mark proprietor imposed a restriction on the buyer under which he was not entitled to resell the goods in the common market?

4. Is the answer to question 3 affected if the trade mark proprietor, upon selling the consignment to which the goods belonged, gave the buyer permission to resell a small part of the goods in the common market but did not specify the individual goods to which that permission applied?'

The questions referred for a preliminary ruling

Question 1

22 In the light of the circumstances of the main proceedings, the national court essentially asks, by its first question, whether Article 7(1) of the Directive must be interpreted as meaning that goods bearing a trade mark are regarded as having been put on the market in the EEA where the proprietor of the trade mark has imported them into the EEA with a view to selling them there or where he has offered them for sale to consumers in the EEA, in his own shops or those of an associated company, but without actually selling them.

Observations submitted to the Court

23 Peak Holding and the Commission submit that exhaustion of the rights conferred by the trade mark occurs only when the goods are sold in the EEA by or with the consent of the proprietor of the trade mark. The rights are not exhausted in the hypotheses referred to in the first question.

24 Axolin-Elinor submits that exhaustion of the rights of the trade mark proprietor occurs by virtue of the mere fact of importation, customs clearance and warehousing of the goods in the EEA with a view to sale. In the alternative, it argues that the rights conferred by the trade mark are exhausted when the proprietor of the mark offers the goods for sale to consumers, even if the offer is not taken up.

25 The Swedish Government submits that the different language versions of the Directive must be understood as requiring the proprietor of the trade mark to have taken a step directed towards the market for it to be possible for goods to be regarded as having been put on the market.

26 Goods should not thus be regarded as put on the market in the EEA merely because they have been imported, cleared through customs, and then warehoused in the EEA by the proprietor, since none of those steps is directed towards the market.

27 Exhaustion occurs at the latest when the proprietor of the trade mark or a person who has acquired the right to use the mark offers the goods for sale to consumers in the EEA.

28 Exhaustion does not occur, by contrast, when the proprietor of the trade mark offers his goods in the EEA to resellers, since an offer to sell frequently relates only to a certain quantity of the goods in question. In such a case it is not possible to identify the goods in relation to which exhaustion has occurred. Moreover, an offer which is not followed by a transfer cannot be regarded as a sufficiently definitive disposal on the part of the proprietor.

29 Exhaustion occurs on an actual transfer to a reseller, provided that the transfer appears as a step directed towards the market. A transfer between companies within the same group should be regarded as an internal measure within the group which does not bring about exhaustion of the rights.

Findings of the Court

30 Articles 5 to 7 of the Directive effect a complete harmonisation of the rules relating to the rights conferred by a trade mark and accordingly define the rights of proprietors of trade marks in the Community (Case C-355/96 *Silhouette International Schmied* [1998] ECR I-4799, paragraphs 25 and 29, and Joined Cases C-414/99 to C-416/99 *Zino Davidoff and Levi Strauss* [2001] ECR I-8691, paragraph 39).

31 The expression 'put on the market' in the EEA used in Article 7(1) of the Directive constitutes a decisive factor in the extinction of the exclusive right of the proprietor of the trade mark laid down in Article 5 of that directive (see Case C-244/00 *Van Doren + Q* [2003] ECR I-3051, paragraph 34).

32 It must therefore be given a uniform interpretation in the Community legal order (see, by analogy, *Zino Davidoff and Levi Strauss*, paragraphs 41 to 43).

33 The wording alone of Article 7(1) of the Directive does not make it possible to determine whether goods imported into the EEA or offered for sale in the EEA by the proprietor of the trade mark are to be regarded as having been 'put on the market' in the EEA within the meaning of that provision. The interpretation of the provision in question must therefore be sought with regard to the scheme and objectives of the Directive.

34 Article 5 of the Directive confers on the trade mark proprietor exclusive rights which entitle him inter alia to prevent any third party from importing goods bearing the mark, offering the goods, or putting them on the market or stocking them for these purposes. Article 7(1) contains an exception to that rule, in that it provides that the trade mark proprietor's rights are exhausted where the goods have been put on the market in the EEA by him or with his consent (see *Zino Davidoff and Levi Strauss*, paragraph 40, and *Van Doren + Q*, paragraph 33).

35 The Court has held that the Directive is intended in particular to ensure that the proprietor has the exclusive right to use the trade mark for the purpose of putting the goods bearing it on the market for the first time (see, inter alia, Joined Cases C-427/93, C-429/93 and C-436/93 *Bristol-Myers Squibb and Others* [1996] ECR I-3457, paragraphs 31, 40 and 44).

36 It has also held that, by specifying that the placing of goods on the market outside the EEA does not exhaust the proprietor's right to oppose the importation of those goods without his consent, the Community legislature thus allowed the proprietor of the trade mark to control the initial marketing in the EEA of goods bearing the mark (see Case C-173/98 *Sebago and Maison Dubois* [1999] ECR I-4103, paragraph 21, *Zino Davidoff and Levi Strauss*, paragraph 33, and *Van Doren + Q*, paragraph 26).

37 It has further stated that Article 7(1) of the Directive is intended to make possible the further marketing of an individual item of a product bearing a trade mark without the proprietor of the trade mark being able to oppose that (see Case C-63/97 *BMW* [1999] ECR I-905, paragraph 57, and *Sebago and Maison Dubois*, paragraph 20).

38 It has held, finally, that for a trade mark to be able to fulfil its essential role in the system of undistorted competition which the EC Treaty seeks to establish, 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 (see, inter alia, Case C-299/99 *Philips* [2002] ECR I-5475, paragraph 30).

39 In the present case, it is not disputed 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.

40 A sale which allows the proprietor to realise the economic value of his trade mark exhausts the exclusive rights conferred by the Directive, more particularly the right to prohibit the acquiring third party from reselling the goods.

41 On the other hand, where 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.

42 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.

43 Moreover, it should be noted that Article 5(3)(b) and (c) of the Directive, relating to the content of the proprietor's exclusive rights, distinguishes inter alia between offering the goods, putting them on the market, stocking them for those purposes and importing them. The wording of that provision therefore also confirms that importing the goods or offering them for sale in the EEA cannot be equated to putting them on the market there.

44 The answer to the first question must therefore be that Article 7(1) of the Directive must be interpreted as meaning that goods bearing a trade mark cannot be regarded as having been put on the market in the EEA where the proprietor of the trade mark has imported them into the EEA with a view to selling them there or where he has offered them for sale to consumers in the EEA, in his own shops or those of an associated company, without actually selling them.

Question 2

45 The second question is asked only if the answer to the first question is in the affirmative.

46 There is thus no need to answer it.

Question 3

47 By its third question, the national court essentially asks whether, in circumstances such as those of the main proceedings, 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 means that there is no putting on the market in the EEA within the meaning of Article 7(1) of the Directive and thus precludes the exhaustion of the proprietor's exclusive rights in the event of resale in the EEA in breach of the prohibition.

Observations submitted to the Court

48 Peak Holding observes that the exhaustion provided for in Article 7(1) of the Directive presupposes a putting on the market by the proprietor himself or with his consent. Exhaustion thus requires the consent of the proprietor in either case. It does not therefore occur on a sale of the goods by the proprietor of the trade mark, if he stipulates that he retains his trade mark rights. In the event that that stipulation is not complied with, the goods have not been put on the market with the consent of the proprietor, so that exhaustion does not supervene.

49 Axolin-Elinor, the Swedish Government and the Commission submit that a stipulation such as that referred to in the third question does not prevent exhaustion, which takes place by operation of law. Such a stipulation cannot be relied on against third parties. Failure to comply with a prohibition on resale corresponds to a breach of contract, not an infringement of intellectual property rights. The legal effect of exhaustion as regards third parties is thus not left at the disposal of the contracting parties, whatever effects the agreement is supposed to have as regards the obligations. Any other interpretation would be contrary to the purpose of Article 7(1) of the Directive.

Findings of the Court

50 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.

51 It follows from the answer to the first question that, in circumstances such as those of the main proceedings, putting on the market in the EEA by the proprietor presupposes a sale of the goods by him in the EEA.

52 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.

53 Exhaustion occurs solely by virtue of the putting on the market in the EEA by the proprietor.

54 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.

55 It cannot preclude the exhaustion provided for by the Directive.

56 The answer to the third question must therefore be that, in circumstances such as those of the main proceedings, 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.

Question 4

57 The fourth question assumes that the answer to the third question is that the stipulation referred to in that question means that the goods have not been put on the market in the EEA in the event of resale in the EEA in breach of the territorial restriction agreed on.

58 There is therefore no need to answer it.

Costs

59 The costs incurred by the Swedish Government and by the Commission, which have submitted observations to the Court, are not recoverable. Since these proceedings are, for the parties to the main proceedings, a step in the proceedings pending before the national court, the decision on costs is a matter for that court.

On those grounds, the Court (Grand Chamber) rules as follows:

1. **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, must be interpreted as meaning that goods bearing a trade mark cannot be regarded as having been put on the market in the European Economic Area where the proprietor of the trade mark has imported them into the European Economic Area with a view to selling them there or where he has offered them for sale to consumers in the European Economic Area, in his own shops or those of an associated company, without actually selling them.**

2. **In circumstances such as those of the main proceedings, the stipulation, in a contract of sale concluded between the proprietor of the trade mark and an operator established in the European Economic Area, of a prohibition on reselling in the European Economic Area does not mean that there is no putting on the market in the European Economic Area within the meaning of Article 7(1) of Directive 89/104, as amended by the Agreement on the European Economic Area, and thus does not preclude the exhaustion of the proprietor's exclusive rights in the event of resale in the European Economic Area in breach of the prohibition.**

Signatures.