

**Case C-133/20**

**Request for a preliminary ruling**

**Date lodged:**

11 March 2020

**Referring court:**

Hoge Raad der Nederlanden (Netherlands)

**Date of the decision to refer:**

6 March 2020

**Appellant in cassation:**

European Pallet Association eV

**Respondent in cassation:**

PHZ BV

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[...]

**HOGE RAAD DER NEDERLANDEN**  
**(SUPREME COURT OF THE NETHERLANDS)**  
**(CIVIL CHAMBER)**

[...]

**Date** 6 March 2020

**JUDGMENT**

In the case of

a legal person under German law EUROPEAN PALLET ASSOCIATION e.V.,  
established in Münster, Germany,

Appellant in cassation,

‘EPAL’,

[...]

v

PHZ B.V.,

established in Zoetermeer,

Respondent in cassation,

‘PHZ’,

[...] [Or. 2]

## **1. The further course of the proceedings in cassation**

1.1 [...]

1.2 [...] [the course of the national proceedings]

## **2. Starting points and facts**

2.1 Starting points in cassation.

- (i) EPAL is the proprietor of the EU trade mark registration of the word/figurative mark EPAL, with registration number 472415, registered on 22 December 1998 for, inter alia, ‘reusable pallets’ (classes 6 and 20). The mark has been designated a collective mark.
- (ii) There is a private-law system for standardising so-called EUR/EPAL pallets (‘the EPAL system’). That system entails that the pallets (‘Europallets’), even after repairs, must meet certain standards and specifications. Under that system, the production and repair of Europallets and trading therein are reserved for companies with a right of use issued by EPAL (the licensees).
- (iii) EPAL is responsible for the management and quality control of the Europallets. Those pallets are branded on one of the legs with the marks EUR and/or EPAL and that is how they are put on the market. EPAL’s objective is to create and maintain a worldwide open pooling system in which the quality and characteristics of the pallets are constant, in order to enable the pallets to be exchanged. EPAL is also dedicated to preventing those pallets being counterfeited.
- (iv) PHZ does not have a right of use as referred to under (ii) above. In 2014, it repaired and further traded Europallets bearing the EPAL mark.

2.2.1 In the present proceedings EPAL, is seeking, in so far as is still relevant in cassation:

- a ruling that PHZ is guilty of trade mark infringement or has acted unlawfully through the repair and commercialisation of repaired pallets originally put on the market under the EPAL mark;
- an order to cease the repair and further commercialisation of pallets bearing the EPAL mark, on pain of a penalty payment.

In brief, EPAL claims that PHZ has not only repaired, but has also further commercialised Europallets bearing the EPAL mark. [Or. 3]

2.2.2 The Rechtbank (District Court) has upheld the claims in so far as they relate to the further commercialisation of the Europallets, but dismissed them in so far as they relate solely to the repair of the Europallets.<sup>1</sup>

2.2.3 The [Gerechts]hof (Court of Appeal) has upheld the Rechtbank's judgment in so far as it ordered PHZ to cease and desist with immediate effect after service of that judgment, any further commercialisation of the pallets bearing the EPAL mark that have been repaired by PHZ and where those repairs consist of changes in the condition of the pallets that are not of minor significance within the meaning of the *Valeo* judgment of the Benelux Court of Justice, on pain of a penalty. For the remainder, the [Gerechts]hof has set aside the Rechtbank's decision and dismissed EPAL's claims. In that judgment, in so far as is relevant in cassation, the [Gerechts]hof ruled as follows.<sup>2</sup>

It does not object to the prohibition imposed by the Rechtbank in so far as it relates to the commercialisation of pallets that PHZ has repaired itself and where those repairs consist of 'changes in the condition that are not of minor significance', as referred to in the *Valeo* judgment of the Benelux-Gerechtshof (Benelux Court of Justice). (Paragraph 3.2)

The Europallets at issue in the present case were put on the market by the proprietor of the trade mark or with its consent. Having regard to Article 13 of Council Regulation No 207/2009 of 26 February 2009 ('CTM Regulation') — still applicable in the present case — EPAL can therefore only prohibit further commercialisation when it has legitimate reasons to oppose further commercialisation, especially when the condition of the pallets has changed or been impaired after they have been put on the market. (Paragraph 3.6)

<sup>1</sup> [...]

<sup>2</sup> [...]

EPAL has clarified in its ground of appeal that the breakdown of the pallets before the repair — and not the repair itself — constitutes the change within the meaning of Article 13(2) of the CTM Regulation. It (therefore) no longer sees the repair as changing the condition of the pallets. That means that the infringement claim cannot be granted on the basis of the presence of changes within the meaning of Article 13(2) of the CTM Regulation, because no submission was made or evidence produced that PHZ traded in broken pallets. (Paragraph 4.2-4.3)

EPAL is of the view that a legitimate reason within the meaning of Article 13 of the CTM Regulation nevertheless exists, because the indication of origin function and the quality guarantee function of the EPAL mark are no longer guaranteed because of the repairs carried out by a non-licensee. (Paragraphs 4.4 and 4.7)

The trade mark proprietor may oppose the further commercialisation of the goods if there is a legitimate reason and the further commercialisation impairs or may impair the functions of the mark. (Paragraph 4.5)

The indication of origin function is impaired, *inter alia*, when the mark is used in the reseller's advertising in such a way as to give the impression that there is a commercial connection between the reseller and the proprietor of the trade mark (here: EPAL and/or its members), in particular, that the reseller's company belongs to the trade mark proprietor's distribution network or that there is a special relationship between the two companies. PHZ trades further in the pallets it has purchased. It therefore sells second-hand goods and its customers must be presumed to know this. PHZ also states this on its [Or. 4] website, which shows a Europallet bearing the EPAL mark. Those circumstances are not such as to suggest that the impression is created that PHZ and EPAL/its members are economically connected, or that PHZ's website seriously damages the reputation of the mark. (Paragraph 4.9)

The function of the EPAL collective mark is to guarantee that those goods originate from an EPAL member/licensee (namely, that that is their original provenance), which guarantees their quality at the time that the goods are first placed on the market. The mark does not have the function of guaranteeing quality thereafter and in addition, does not guarantee that third parties will not make repairs. It is therefore not possible to enforce through a collective mark that pallets, after they have been put on the market with the consent of the trade mark proprietor, are repaired exclusively by the members and licensees of the trade mark proprietor in accordance with certain standards in order to maintain their quality after they have first been placed on the market. Thus, contrary to EPAL's contention, the indication of origin function is therefore not at issue in the event that a non-licensee carries out repairs and the consistent quality of the Europallets cannot be guaranteed in the event of further commercialisation. (Paragraph 4.10)

For the aforementioned reasons, the quality guarantee function and the investment function are also not impaired. In addition, EPAL's position that the repairs carried out by PHZ do not change the condition of the goods implies that PHZ's further commercialisation of the repaired pallets does not impair those functions of the mark, because the pallets have (therefore) not been changed after repair and their quality should consequently not be considered to be worse than before and they cannot therefore be considered to be damaging to the reputation of the EPAL mark. (Paragraph 4.11)

EPA's subsidiary assertions that any repair by a non-licensee involves a change of more than minor significance are internally contradictory and incomprehensible and lacking in relevance in the light of the foregoing. (Paragraph 4.13)

There exist no legitimate grounds within the meaning of Article 13(2) of the CTM Regulation, since none of the functions of the EPAL mark are or are liable to be impaired by further commercialisation by PHZ. (Paragraph 4.14). EPAL's trade mark rights are therefore exhausted in respect of the Europallets at issue in the present case. (Paragraph 5.1)

EPAL has based its claims in the alternative on a wrongful act. EPAL has based that claim on the fact that, by the commercialisation of pallets with the EPAL mark that do not meet the standards of the EPAL system, PHZ is impairing that system. Thus, the claim of a wrongful act is essentially based on the claim that PHZ uses the EPAL mark, so that those claims share the fate of the claims based on trade mark law. (Paragraph 5.3)

### **3. Assessment of the ground of appeal**

3.1.1 Part 1 of the ground of appeal relates to EPAL's assertion that it has a legitimate reason to oppose the further commercialisation of the pallets because the condition of those pallets has been changed or impaired.

Parts 1.1.1 and 1.1.2 set out that the [Gerechts]hof (in Paragraph 4.2) has wrongfully failed to recognise that EPAL has argued that it has a legitimate reason, consisting in the maintenance of the EPAL system and the control and prevention of the undermining thereof. Those parts of the ground of appeal further complain that the [Gerechts]hof has wrongfully failed to recognise that EPAL has argued that any repair by PHZ (or other **[Or. 5]** non-licensees) must be regarded as a change of more than minor significance. EPAL's assertion that the condition of the goods is changed if the pallets break down before repair does not alter the fact that any repair by PHZ should be regarded as a change of more than minor significance.

Part 1.1.3 is directed against the ruling of the [Gerechts]hof in Paragraph 4.3 and argues (in short) that there can also be a change even if the goods are not broken.

Part 1.1.4 argues that in Paragraph 4.3 the [Gerechts]hof has wrongfully failed to recognise that EPAL has argued that the repair of the broken pallets by PHZ does not do away with the change in their condition that has arisen due to their breakdown.

Part 1.1.5 makes the complaint that (in Paragraph 4.13) the [Gerechts]hof has wrongfully failed to recognise that it follows from settled case-law that subsidiary arguments put forward by a party may not be set aside on the sole ground that those arguments contradict that party's primary arguments.

3.1.2 Part 2 makes the complaint that the judgment of the [Gerechts]hof (in Paragraph 4.5) contains an error in law, in so far as the [Gerechts]hof has accepted as a criterion that a trade mark proprietor can only oppose the further commercialisation of the goods if (i) there is a legitimate reason and (ii) the further commercialisation may impair the functions of the mark. Where the trade mark proprietor has a legitimate reason to oppose further commercialisation of the goods, commercialisation will also impair the functions of the mark. According to that part of the ground of appeal, those are therefore not two criteria to be fulfilled separately.

3.1.3 Part 3.1 states, first, that the [Gerechts]hof (in Paragraph 4.9) wrongfully failed to recognise that anyone who commercialises reconditioned goods must, in principle, do all that is reasonably possible during such commercialisation to make clear that they are reconditioned products. In addition, the [Gerechts]hof has wrongfully failed to recognise that the impression of a commercial connection between PHZ on the one hand, and EPAL or the members of EPAL on the other, can be given not only by advertising the goods in question, but also by the commercialisation of those goods and by any other use of a sign similar to or corresponding to the mark. It may, for example, be important in that regard whether labelling prevents the misrepresentation of an economic connection between the trade mark proprietor and the third party. That part of the ground of appeal refers in that context to the *Valeo* judgment of the Benelux Court of Justice,<sup>3</sup> the *Viking Gas v Kosan Gas* judgment of the Court of Justice of the European Union<sup>4</sup> and the *Kool v Primagaz* judgment of the Hoge Raad.<sup>5</sup>

3.1.4 Part 3.2 addresses the ruling of the [Gerechts]hof (Paragraph 4.10) that the mark does not have the function of guaranteeing quality after it the goods are first placed on the market, that it also does not guarantee that third parties will not carry out repairs and that it is not possible to enforce through a collective mark that pallets, after they have been put on the market with the consent of the trade mark proprietor, will only be repaired by certain

<sup>3</sup> Judgment of 6 November 1992, [...] (Cases A 89/1 and A 91/1).

<sup>4</sup> Judgment of 14 July 2011, C-46/10, ECLI:EU:C:2011:485.

<sup>5</sup> Judgment of 5 January 2018, ECLI:NL:HR:2018:10.

(legal) persons — its members/licensees — in accordance with certain standards in order to ensure quality after the goods are first placed on the market.

Part 3.2.1 makes the complaint that the [Gerechts]hof has wrongfully failed to recognise that the functions of the EPAL mark [Or. 6] do not only relate to quality when the goods are first placed on the market, but in fact afterwards as well. This is related to the nature of the goods, which are interchangeable, are intended for (multiple) reuse and are often subject to very heavy loads. Therefore, according to this part of the ground of appeal, the production and repair of the pallets must be subject to high requirements and users must be able to trust that the pallets meet those requirements.

Part 3.2.2 makes the complaint that, by the last sentence of Paragraph 4.10, the [Gerechts]hof has wrongfully failed to recognise that EPAL has argued that solely the further commercialisation of pallets repaired by PHZ and bearing its mark constitutes an infringement of its trade mark rights. Indeed, EPAL has argued that if PHZ wants to repair the Europallets itself, but does not want to join EPAL, it should remove and/or paint over the EPAL marks in order to make it clear to the public that they are reconditioned pallets. According to this part of the ground of appeal, it is possible to remove the EPAL collective mark without compromising the usability and/or attractiveness of the product.

Part 3.2.3 criticises the [Gerechts]hof (in Paragraph 4.10) of having wrongfully failed to recognise the nature of the collective mark and its inherent aspects. The regulations associated with the EPAL collective mark impose requirements both on the members of EPAL and on the use of the mark by the members of EPAL. According to this part of the ground of appeal, the collective EPAL mark does therefore indeed have the function of guaranteeing quality after the goods are first placed on the market. Part 3.2.4 makes the complaint that the [Gerechts]hof erred in law with regard to the indication of origin function by accepting that that function can only be at issue at the time that the goods were first placed on the market, but not afterwards. According to this part of the ground of appeal, the cases referred to in Article 13(2) of the CTM Regulation by definition relate to the further commercialisation of goods after they have been put on the market.

3.1.5 Part 4 addresses the ruling of the [Gerechts]hof (in Paragraph 5.3) that EPAL's claims, in so far as they rely on a wrongful act, are essentially based on the assertion that PHZ uses the EPAL mark and for that reason must share the fate of claims based on trade mark law. According to part 4.1, the [Gerechts]hof has overlooked the fact that EPAL has argued that, while PHZ does sell pallets as Europallets, PHZ does not carry out repairs in accordance with the strict quality standards and specifications that apply, and that it evades other obligations that EPAL members must comply with. By so doing, PHZ benefits from the EPAL system at the expense of EPAL and its

members, engages in unfair competition and undermines the EPAL association and its system. This part of the ground of appeal makes the complaint that the [Gerechts]hof has wrongly failed to investigate whether such conduct is unlawful in respect of EPAL as a collective trade mark proprietor.

- 3.2.1 All parts of the ground of appeal, with the exception of part 4, contain complaints relating to the question of whether, by relying on its collective trade mark, and on the basis of Article 13(2) of the CTM Regulation, (i.e. that of 2009, still applicable to the present case) EPAL can object to further commercialisation under the EPAL mark by PHZ, which is neither a member nor a licensee of EPAL, of pallets put on the market under that mark, in so far as those pallets have been repaired by PHZ.
- 3.2.2 Under to Article 13(2), read in conjunction with Article 13(1) of the CTM Regulation, such an objection is only possible if EPAL has legitimate reasons for that, which according to the wording is specifically the case [Or. 7] where the condition of the goods has changed or deteriorated after they have been put on the market.
- 3.2.3 The Court of Justice of the European Union has not yet given a ruling on whether (and if so, under what circumstances) further commercialisation of repaired branded products by a non-licensee may constitute a legitimate reason for the trade mark proprietor to oppose further commercialisation of goods under that trade mark.
- 3.2.4 The first question that arises in connection with that central question is whether the ‘function doctrine’- the functions of guaranteeing origin and quality, as well as the functions of communication, investment and advertising<sup>6</sup> — introduced by the Court of Justice in the context of the interpretation of (in particular) Article 5(1)(a) of the Trademarks Directive 89/104 in relation to the scope of the protection provided by the trade mark, also plays a role in the application of Article 13(2) of the CTM Regulation and, if so, whether that relates to the interpretation of the term ‘legitimate reason’ or to an additional requirement that applies if the trade mark proprietor is to successfully oppose further commercialisation. The question also arises whether one can always speak of ‘legitimate reasons’ in circumstances where one or more of those functions is adversely affected or is liable to be adversely affected during further commercialisation.
- 3.2.5 It is conceivable that it makes a difference to the possibility of the trade mark proprietor opposing further commercialisation of repaired goods (a) whether the goods concerned should be subject to technically stringent requirements when undergoing repair, for example for safety reasons, and

<sup>6</sup> See most recently judgment of 19 September 2013, *Martin Y Paz v Depuydt*, C-661/11, ECLI:EU:C:2013:577.

(b) whether the repair involves a change in the condition of the goods which may or may not be of minor importance (as was the case according to the case-law of the Benelux Court of Justice under the Benelux legislation<sup>7</sup> applicable at the time). That therefore concerns the issue of whether the nature of the goods concerned or of the repair carried out matters in determining legitimate reasons.

3.2.6 The question also arises whether special circumstances, such as those in the present case, set out in 2.1 (ii) and (iii) above, play or may play a role in the assessment of the existence of a legitimate reason.

3.2.7 In view of the ruling in the Court of Justice's judgment in *Viking Gas v Kosan Gas*,<sup>8</sup> it may be necessary to consider that legitimate reasons exist if the mark is used in such a way as to give the impression that there is a commercial connection between the trade mark proprietor (or his licensees) and the party who further commercialises the goods, in particular that they are affiliated to the distribution network of the trade mark proprietor or that there is a special relationship between the two. On the other hand, it may be necessary to conclude on the basis of that judgment that legitimate reasons do not exist if it is made clear after the repairs that the repair of the pallets was not carried out by the trade mark proprietor or a licensee of the latter. That could include labelling the pallets, whether or not in combination with the removal of the trade mark. It may be important in that regard whether the trade mark **[Or. 8]** can be easily removed without compromising the technical soundness or practical usability of the pallets.

3.2.8 Furthermore, as this case concerns a collective mark, the question arises whether the answer to the aforementioned questions also applies, in whole or in part, to a collective mark. It is important here that, unlike the EU Trade Mark Regulation 2015 (2017/1001), the CTM Regulation (of 2009) does not make provision for the certification mark, so that the CTM Regulation may have to be interpreted as meaning that the collective mark, having regard also to the regulations laid down in Article 67 of the CTM Regulation, provides or may provide a quality guarantee that exceeds that provided at the time that the goods were first placed on the market (i.e. commercialisation by the trade mark proprietor or its members).

3.2.9 As all these legal questions have not been previously decided by the Court of Justice and they are important for deciding this case, the Hoge Raad will submit questions of interpretation to the Court of Justice, as formulated below.

[...] [staying of proceedings]

<sup>7</sup> Judgment of 6 November 1992, *Automotive v Valeo*, [...] (Cases A 89/1 and A 91/1).

<sup>8</sup> Judgment of 14 July 2011, C-46/10, ECLI:EU:C:2011:485.

4. [...] ]

[...] [procedural details]

5. **Questions referred**

1.

(a) Does successful recourse to Article 13(2) of the CTM Regulation require that the further commercialisation of the branded products concerned adversely affect or are liable to adversely affect one or more of the functions of the trade mark referred to in paragraph 3.2.4 above?

(b) If the answer to question 1(a) is in the affirmative, does that constitute a requirement that is additional to that of the existence of ‘legitimate reasons’?

(c) Does it suffice for successful recourse to Article 13(2) of the CTM Regulation that one or more of the functions of the trade mark referred to in question 1(a) above are adversely affected?

2.

(a) In general, can it be said that, under Article 13(2) of the CTM Regulation, a trade mark proprietor may oppose the further commercialisation of goods under his trade mark if those goods have been repaired by persons other than the trade mark proprietor or persons to whom he has given consent to do so?

(b) If the answer to question 2(a) is in the negative, is the existence of ‘legitimate reasons’ within the meaning of Article 13(2) of the CTM Regulation, after repairs by a third party of goods put on the market by or with the consent of the trade mark proprietor, dependent on the nature of [Or. 9] the goods or the nature of the repair performed (as further explained in 3.2.5 above), or on other circumstances, such as special circumstances like those in the present case, set out above in 2.1 (ii) and (iii)?

3.

(a) Is opposition by the trade mark proprietor as referred to in Article 13(2) of the CTM Regulation to the further commercialisation of goods repaired by third parties excluded if the trade mark is used in such a way that it does not give the impression that there is a commercial connection between the trade mark proprietor (or his licensees) and the party who further commercialises the goods, for example if, by the removal of the brand and/or by the additional labelling of the goods, it is clear after the

repair that the repair has not been carried out by or with the consent of the trade mark proprietor or a licensee of the latter?

(b) Does that mean that significance should be attached to the answer to the question of whether the trade mark can be easily removed without compromising the technical soundness or practical usability of the goods?

4.

When answering the foregoing questions, is it important whether it is a collective trade mark under the CTM Regulation that is at issue, and if so, in what respect?

## 6. Decision

[...]

[...] [the Hoge Raad refers the aforementioned questions and stays the proceedings]

[..] [closing formula] **[Or. 10]**

## Signatures

[...]

WORKING DOCUMENT