

OPINION OF ADVOCATE GENERAL
JACOBS

delivered on 25 March 1999 *

1. In its recent judgment in the case of *Silhouette*,¹ the Court held that national rules providing for the exhaustion of trade-mark rights in respect of products placed on the market outside the European Economic Area ('the EEA') under the mark by the proprietor or with his consent are contrary to Article 7(1) of the Trade Marks Directive.² Thus it is only the placing of products on the market within the EEA by the trade-mark proprietor or with his consent which *prima facie*³ exhausts trade-mark rights: placing products on the market outside the EEA by the trade-mark proprietor or with his consent does not exhaust such rights. Community trade-mark law accordingly recognises a principle of 'EEA exhaustion' but not 'international exhaustion'.

2. The main question raised by the Cour d'Appel, Brussels, in its request for a preliminary ruling is whether the proprietor of a trade mark can be said to have consented to the marketing within the EEA of a batch of his products imported from outside the EEA on the grounds that

he has consented to the marketing within the EEA of other batches of identical or similar articles.

The facts

3. The first appellant, Sebago Inc., is a company incorporated in the United States of America. It is the proprietor of two Benelux trade marks in the name 'Dock-sides' and three Benelux trade marks in the name 'Sebago'. All five trade marks are registered, *inter alia*, for shoes.

4. The second appellant, Ancienne Maison Dubois et Fils SA, is the exclusive distributor in Benelux of Sebago's shoes and other footwear articles. I shall refer to the appellants collectively as 'Sebago'.

5. Sebago claims that the respondent, GB-Unic, infringed its trade marks by marketing goods within the Community without its consent. GB-Unic has explained that it purchased 2,561 pairs of shoes 'made in EL

* Original language: English.

1 — Case C-355/96 *Silhouette International Schmied v Hartlauer Handelsgesellschaft*, judgment of 16 July 1998.

2 — 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.

3 — Subject to the possible disapplication of the exhaustion principle for 'legitimate reasons' within the meaning of Article 7(2).

Salvador' from a company incorporated under Belgian law which specialises in parallel importation (and which had thus presumably imported the shoes in question from outside the EEA). In the tenth issue of its 1996 brochure entitled 'La quinzaine Maxi-GB', announcing prices valid from 29 May until 11 June 1996, GB-Unic advertised 'Docksides Sebago' shoes for sale in its Maxi-GB hypermarkets. It sold its entire stock during the summer of 1996.

6. Sebago does not dispute that the shoes sold by GB-Unic were genuine goods. It contends, however, that since it had not consented to sale of those shoes in the Community GB-Unic had no right to sell them there. Sebago relies on Article 13A(8) of the Uniform Benelux Law on Trade Marks, as amended by the Protocol of 2 December 1992. Article 13A(8) is in similar terms to Article 7(1) of the Trade Marks Directive ('the Directive'), which was the subject of the Court's judgment in *Silhouette*, and which is set out at paragraph 14 below.

7. The Cour d'Appel observes that the parties' interpretation of Article 13A(8) differs in two material respects: first, as to whether or not that provision lays down the principle of international exhaustion (GB-Unic's contention) or the principle of Community exhaustion only (Sebago's contention); and, secondly, as to the conditions

under which the trade-mark proprietor's consent may be deemed to have been given.

8. Concerning the second question GB-Unic argues that in order to satisfy the requirement of consent in Article 13A(8) it is sufficient that similar goods bearing the same trade mark have been lawfully marketed in the EEA with the consent of the proprietor of the trade mark. It quotes in support of that view two judgments of the Tribunal de Commerce, Brussels.⁴ Sebago, on the other hand, argues that its consent must be obtained in relation to each defined parcel of goods, i.e. each consignment imported at a particular time by a particular importer. Thus it considers that it can be deemed to have given its consent only if GB-Unic can prove, which it has not, that it obtained the shoes in question from a seller who was part of the distribution network established by Sebago in the Community, or from a reseller who, although not part of the network, had obtained those shoes lawfully within the Community.

9. GB-Unic also argued before the national court that Sebago did not prohibit its licensee in El Salvador from exporting its goods to the Community and that Sebago should accordingly be deemed to have given its implied consent to the marketing of those goods in the Community. However, the Cour d'Appel expressly dismisses the relevance of that argument on the ground that it has not been proven that Sebago granted a licence to use its trade

⁴ — Prés. Com. Bxl, 16 April 1997, unreported, GTR Group/GB-Unic & Exmin Europe; Prés. Com. Bxl, 8 September 1997, unreported, Texeuropéan/Parimpex Belgium.

mark in El Salvador (indeed Sebago disputes the allegation that it did grant such a licence).

10. The Cour d'Appel, Brussels, has referred the following questions to this Court:

'Is 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) to be interpreted as meaning that the right conferred by the trade mark entitles its proprietor to oppose the use of his trade mark in relation to genuine goods which have not been put on the market in the European Economic Community (extended to Norway, Iceland and Liechtenstein by virtue of the Agreement of 2 May 1992 establishing the European Economic Area) by the proprietor or with his consent, where:

- the goods bearing the trade mark come directly from a country outside the European Community or the European Economic Area,
- the goods bearing the trade mark come from a Member State of the European Community or the European Economic Area in which they are in transit without the consent of the proprietor of the trade mark or his representative,
- if the goods were acquired in a Member State of the European Community or of the European Economic Area in which they were put on sale for the first time without the consent of the proprietor of the trade mark or his representative,
- either where goods bearing the trade mark — which are identical to the genuine goods bearing the same trade mark but imported in parallel either directly or indirectly from countries outside the European Community or the European Economic Area — are, or have already been, marketed within the Community or the European Economic Area by the proprietor of the trade mark or with his consent,
- or where goods bearing the trade mark — which are similar to the genuine goods bearing the same trade mark but imported in parallel either directly or indirectly from countries outside the European Community or the European Economic Area — are, or have already been, marketed within the Community or the European Economic Area by the proprietor of the trade mark or with his consent.'

11. GB-Unic, the French Government and the Commission have submitted written observations. At the hearing Sebago, GB-Unic and the Commission were represented.

The Trade Marks Directive

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12. The provisions of the Trade Marks Directive relevant to the present case are Articles 5 and 7, entitled, respectively, 'Rights conferred by a trade mark' and 'Exhaustion of the rights conferred by a trade mark'.

3. The following, *inter alia*, may be prohibited under paragraphs 1 and 2:

(a) affixing the sign to the goods or to the packaging thereof;

13. Article 5 provides that:

(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;

'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:

(c) importing or exporting the goods under the sign;

(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;

(d) using the sign on business papers and in advertising.'

(b) any sign where, because of its identity with, or similarity to, the trade mark and the identity or similarity of the goods or services covered by the trade mark and the sign, there exists a likelihood of confusion on the part of the public, which includes the likelihood of association between the sign and the trade mark.

14. Article 7, however, limits the rights conferred under Article 5 in the following terms:

'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. **Appraisal**

2. Paragraph 1 shall not apply where there exist legitimate reasons for the proprietor to oppose further commercialisation of the goods, especially where the condition of the goods is changed or impaired after they have been put on the market.⁵

15. Although Article 7(1) of the Trade Marks Directive refers to marketing in the Community, the principle of the exhaustion of rights has been extended to the EEA. The Directive was one of the legislative acts incorporated into EEA law by the Agreement establishing the EEA,⁶ which entered into force on 1 January 1994.⁶ Annex X-VII to the Agreement amends Article 7(1) of the Directive 'for the purposes of the Agreement' so as to refer to marketing within the EEA rather than the Community: it replaces the words 'in the Community' with the words 'in a Contracting Party'.⁷

5 — OJ 1994 L 1, p. 3.

6 — 1 May 1995 in relation to Liechtenstein.

7 — P. 483. Moreover, a protocol to the Agreement, Protocol 28 on intellectual property, contains an article, Article 2, headed 'Exhaustion of rights'. Article 2(1) provides: 'To the extent that exhaustion is dealt with in Community measures or jurisprudence, the Contracting Parties shall provide for such exhaustion of intellectual property rights as laid down in Community law. Without prejudice to future developments of case-law, this provision shall be interpreted in accordance with the meaning established in the relevant rulings of the Court of Justice of the European Communities given prior to the signature of the Agreement.'

16. The question referred is somewhat complex in its construction. However, there appear to be two main issues.

17. The first, whether Article 7(1) of the Directive provides for the principle of international exhaustion of trade-mark rights, has been settled since the date of the order for reference by the judgment of the Court in *Silhouette*.⁸ In that case the Court ruled that Article 7(1) provides for only EEA-wide exhaustion and that it would be contrary to the Directive for a Member State to purport to provide for the exhaustion of trade-mark rights on the basis of marketing in a country outside the EEA. It is therefore clear that the Benelux Law (which, it will be recalled, is in similar terms to Article 7(1) of the Directive) should be interpreted as providing only for EEA-wide exhaustion. Accordingly, even if the shoes were put into circulation outside the EEA with Sebago's consent, that would not suffice to prevent Sebago from exercising its trade-mark rights in relation to those shoes within the EEA.

18. The key issue in the present case is accordingly the second point at issue between the parties: does the consent of a trade-mark proprietor to the marketing of one batch of a certain type of goods within

8 — Case C-355/96, cited in note 1.

the EEA bearing his trade mark mean that he has exhausted his right to object to the marketing within the EEA of other batches of his identical (or similar) goods bearing the same trade mark?⁹ In other words, can the reference in Article 7(1) of the Directive to ‘consent’ to the placing on the market in the Community of ‘goods’ be read as meaning consent to the marketing of a certain type of product (i.e. product line), rather than to each batch of a certain type of product?

19. Sebago, the French Government and the Commission submit that the consent of the trade-mark owner to the marketing in the EEA of one batch of goods does not exhaust his trade-mark rights in relation to the marketing of other batches of his goods even if they are identical. GB-Unic takes the contrary view.

20. It is useful first to consider the nature of the exhaustion principle when applied in a purely intra-Community context. Under Community law, the exercise of intellectual property rights may hinder the free movement of goods within the Community but may be justified under Article 36 of the EC Treaty. Since the ‘use’ of a trade mark is a very wide concept,¹⁰ many different dealings with goods may constitute trade-mark infringement. Thus, if no limitation were

imposed upon the exercise of trade-mark rights, resellers wishing to sell trade-marked goods which they have lawfully acquired could in theory be obliged to obtain the consent of the trade-mark proprietor to such re-sale and any further dealings concerning the goods.

21. It is clear that the exhaustion principle in Community law is concerned with subsequent dealings with trade-marked goods once they have been put ‘into circulation’¹¹ within the EEA by the trade-mark proprietor or with his consent. If a trade-mark proprietor places on the market one particular batch of goods it is only that batch of goods which he puts into circulation: obviously he does not thereby put into circulation all other batches of identical (or similar) goods remaining in his warehouse, and so he retains, in respect of those remaining batches, all such rights as he may enjoy to impose conditions of retail sale.

22. It is true that the exhaustion principle has usually been expressed rather loosely by reference simply to exhaustion of intellectual property rights in relation to the ‘goods’ placed on the market by the trade-mark proprietor or with his consent. That wording is reflected in Article 7(1) of the Directive. However, Article 7(1) should be read in conjunction with Article 7(2) concerning exceptions to the exhaustion prin-

9 — That question might have arisen in Case C-352/95 *Phytheron International v Bourdon* [1997] ECR I-1729, were it not for the way in which the facts were described in the order for reference (see paragraphs 11 and 12 of my Opinion in that case).

10 — See Article 5(3) of the Directive, cited at paragraph 13 above.

11 — See, for example, paragraph 8 of the judgment in Case 16/74 *Centrafarm v Winthrop* [1974] ECR 1183.

ciple, which refers to the 'further commercialisation' of the goods. In French the term used is 'commercialisation ultérieure', which to my mind makes it even clearer than the English text that the exhaustion principle concerns not *other* sales of the same type of goods but rather subsequent dealings with individual products following first sale.

23. Moreover, in its judgment in *Christian Dior*¹² the Court talks of exhaustion of the 'right of resale'¹³ and in the French version of its judgment in *BMW*¹⁴ the Court refers to Article 7 as making possible 'la commercialisation ultérieure d'un exemplaire d'un produit revêtu d'une marque' (emphasis added).¹⁵

24. It is accordingly abundantly clear, at least as regards the purely intra-EEA context, that the Community law principle of the exhaustion of trade-mark rights relates to individual goods or batches of goods, not whole product lines.

25. I turn now to the question whether the trade-mark owner has the right to prevent the import of a particular batch of goods

which has been marketed, by him or with his consent, outside the EEA.¹⁶ GB-Unic accepts that, under the terms of Article 7(1), the trade-mark owner will only have exhausted his rights to prevent the import of that batch if he has consented to its marketing *within the EEA*. However, it argues that there has been such consent within the meaning of Article 7(1) when the trade-mark owner has consented to the marketing in the EEA of other individual batches of the product in question since he has thereby impliedly consented to the marketing within the EEA of the whole of that product line.

26. GB-Unic seeks to justify its view by arguing that, in cases concerning the marketing of genuine products outside the EEA, the import of such products into the EEA does not prejudice the functions of a mark as an indication of the origin and quality of the product. As I observed in my Opinion in *Silhouette*, such arguments are extremely attractive. However, they were insufficient to defeat the conclusion in that case that the Directive prohibits Member States from practising international exhaustion. They can accordingly not be invoked now in order effectively to overturn that judgment, which, as I shall show, would be the practical effect of accepting GB-Unic's interpretation of Article 7(1).

12 — Case C-337/95 *Parfums Christian Dior v Evora* [1997] ECR I-6013.

13 — Paragraph 37 of the judgment.

14 — Case C-63/97, judgment of 23 February 1999, ECR I-905.

15 — At paragraph 57 of the judgment.

16 — Although in the present case it is not clear whether there was even consent to marketing outside the EEA: see paragraph 9 above.

27. According to GB-Unic's view, Article 7(1) allows the trade-mark proprietor to keep out parallel imports from third countries unless and until he has himself commenced marketing an identical (or similar) product within the EEA, but not thereafter. There may, it is true, be some cases in which that limited right confers a real advantage on the trade-mark proprietor, since there may be an advantage in being able to select appropriate markets and time the launching of a product on to a particular market. However, in the vast majority of cases where the trade-mark proprietor is not already marketing the product in the EEA it is likely either that he will have no objection to the products being marketed there since they are not competing against his own marketing or that he has a 'legitimate reason', within the meaning of Article 7(2), for objecting to their import, for example because, for some justifiable reason, the product in question is unsuitable for the EEA market. Thus the question of international exhaustion is unlikely to become an issue unless the trade-mark proprietor is already marketing identical (or similar) goods within the EEA: it is then that he becomes sensitive to 'parallel' imports.

28. To say that once a trade-mark proprietor has consented to the marketing of one particular batch of products within the EEA he must be deemed to have consented to the marketing of other identical (or similar) batches would accordingly deprive the Court's limitation of the exhaustion principle to EEA-wide exhaustion of much of its practical effect. It would for most practical purposes effectively impose a rule of international exhaustion since, in the

absence of a legitimate reason, all parallel imports would necessarily have to be admitted into the EEA.

29. Such a limitation upon the effect of the Directive as interpreted in the Court's judgment in *Silhouette* may seem desirable and would no doubt be welcomed in many circles. However, as the Court observed in *Silhouette*, no argument has been presented to the Court that the Directive could be interpreted as *imposing* a rule of international exhaustion. The dispute centred only on whether the Directive left the matter to the discretion of the Member States. The imposition of international exhaustion in the way suggested by GB-Unic does not follow easily from the wording of Article 7(1). Nor does it appear to have been the intention of the Community legislature.¹⁷

30. The Court cannot in my view be expected to stand legislation on its head in order to achieve an objective, even were it to be considered desirable. If the Directive is found to have effects which are unacceptable, the correct remedy is to amend the Directive or, as the Court observed in paragraph 30 of its judgment in *Silhouette*, to enter into international agreements in order to extend the principle of exhaustion to products put on the market in non-member countries, as was done in the EEA Agreement.

¹⁷ — See paragraphs 18 and 19 of the judgment and paragraphs 31 and 32 of my Opinion in that case.

31. I conclude, therefore, that Sebago cannot be deemed to have consented to the placing on the market in the EEA of the particular batch of products in question by virtue of having consented to the marketing within the EEA of other batches of identical or similar goods. Article 7(1) of the Directive must accordingly be interpreted as

meaning that where goods have been marketed by the trade-mark owner or with his consent within the EEA, he is not thereby precluded from exercising his trade-mark rights to oppose the importation into the EEA of other identical or similar goods bearing his mark.

Conclusion

32. Accordingly in my opinion the questions referred by the Cour d'Appel, Brussels, should be answered as follows:

- (1) National rules providing for exhaustion of the rights conferred by a trade mark in respect of products put on the market outside the EEA under that mark by the proprietor or with its consent are contrary to Article 7(1) of First Council Directive 89/104/EEC of 21 December 1988 to approximate the laws of the Member States relating to trade marks, as amended by the Agreement on the European Economic Area of 2 May 1992.
- (2) Article 7(1) of the Directive must be interpreted as meaning that where goods have been marketed by the trade-mark owner or with his consent within the EEA, he is not thereby precluded from exercising his trade-mark rights to oppose the importation into the EEA of other identical or similar goods bearing his mark.