

ADVANCED COMPETITION LAW

"The arguments in favour of the current EC regime of exhaustion in the EEA only is that return on investment by the trademark holder is higher thus improving the range and quality of products. It ensures that EC companies are not placed at a disadvantage vis a vis those countries which do not have international exhaustion

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INTRODUCTION

"Before the law stands a doorkeeper. To this doorkeeper there comes a man from the country and prays for admission to the law. But the doorkeeper says that he cannot grant admittance at the moment. The man thinks it over and then asks if he will be allowed in later. "It is possible," says the doorkeeper "but not at the moment.""

Franz Kafka. Before the Law.¹

Few doctrines could have more seriously threatened the Court of Justice of the European Communities (ECJ) in its efforts to create a harmonious single market than intellectual property rights. By their very nature they are territorial and particularly effective barriers to trade. Recognising the danger that such rights may allow companies to carve up the Common Market, the ECJ developed the doctrine of exhaustion to curtail them as barriers to intra-Community trade. The doctrine of trademark exhaustion from the Court's case law was codified in Article 7(1) of the Trade Mark Directive², which was later extended to the European Economic Area. The Article remained silent on the issue of international

¹ Franz Kafka, Before the Law

² First Council Dir. 89/104/EEC of 21 Dec. 1988 to approximate the laws of the Member States relating to trade marks [1989] OJ L40/1, as amended by the Agreement on the European Economic Area of 2 May 1992 [1994] OJ 11/3, hereafter referred to as the "Trade Mark Dir."

exhaustion allowing National courts, academic authors, and the EFTA Court to adopt different interpretations.

The judgments of the European Court of Justice (ECJ) in the *Silhouette*³, *Sebago*⁴ and *Javico*⁵ cases have generated serious cause for concern for parallel traders and reaffirmed the right of a trademark holder to prevent parallel imports of goods placed on the market outside the EEA by excluding the principle of international exhaustion from the Trademark Directive. The judgments shed light on the extent to which concern about market integration still dominates the development of the law on intellectual property rights and the extent to which broader commercial considerations as to the nature of parallel imports have had little influence on the Court. As well as reviewing *Silhouette*, *Sebago* and *Javico* the judgment of Laddie J. in the English High Court case of *Zino Davidoff*⁶ will also be analysed as it provides a powerful criticism of the approach of the ECJ from the perspective of the commercial lawyer.

EXHAUSTION OF RIGHTS DOCTRINE AND INTELLECTUAL RIGHTS.

Under classic economic theory parallel importers are seen as pro-competitive in their effects as they reduce price discrimination and encourage intra-brand competition. There is recent theoretical work however which suggests that some barriers against parallel importers may be justified in order to enhance global consumer welfare but there is no conclusive proof either way.⁷ The aim of the Trademark Directive was not to achieve full harmonisation of national trademark laws but simply to harmonise those provisions, which most affected the functioning of the internal market. This means that even when implemented, the Directive still leaves some competence to national law.

The term IPR includes various forms of innovation and creativity. Craig and DeBurca describe it:

"as a generic term, which covers both industrial and artistic forms of property right"⁸

³ C-355/96, *Silhouette International v. Hartlauer*, [1998] 2 CMLR 593.

⁴ C-173/98, *Sebago Inc & Ancienne Maison Dubois et fils v. G.B Unic SA*, [1999] ECR I-4103.

⁵ C-306/96 *Javico International v. Yves Saint Laurent Parfums* [1998] ECR I-1983.

⁶ *Zino Davidoff SA v. A&G Imports Ltd*, [1999] 3 ALL ER 711.

⁷ A. Clark, *Editorial* [1999] 21 *European Intellectual Property Review*, p.1.

⁸ P. Craig, and G. DeBurca, *EU Law, Text Cases and Materials* (Oxford University Press, 2002, 3rd Ed.), p.1088.

Trademarks, Copyright and Patents are three of the most widely recognised aspects of this right. The term has been described as "grandiloquent" by some academic commentators.⁹ This has been defended as being necessary as it encompasses some of the "finer manifestations of human achievement".¹⁰ It is submitted that such a term is necessary as most of the rights protected under this umbrella term relate to rights which are intangible and without such protection, creation and innovation may be reduced, as financial reward may be minimal or non-existent.

There are common characteristics shared by each of the aforementioned IPRs. Exclusivity is one, which allows the right owner to control and prohibit acts in relation to the protected property.¹¹ Such action includes the manufacture and distribution of goods.¹² It is felt the term 'exclusivity' immediately raises questions about possible infringements of competition policy, which is an important element of an Internal Market.¹³ This obstacle has been overcome by examining the granting of such rights ex ante, by doing so the importance of creativity and subsequent reward is established. It is argued that this is the correct approach as otherwise the lack of protection would not act as a stimulant to this type of activity. It is felt, looked at ex post, IPRs are anti competitive as they have the effect of constituting barriers to entry.¹⁴

IPRs are territorial in nature. Usually these rights are protected by national legal systems. The original systems that protected IPRs were developed by individual states.¹⁵ Govaere suggests that national IPRs still remain the key forms of protection.¹⁶ There are other common features associated with such rights. For instance it is suggested the protection offered is "essentially negative". As these rights confer the power to control goods on the right holder. On the other hand these rights confer positive privileges. Cornish submits that this type of protection is merely ancillary as it only gives the IPR proprietor the ability to obtain such rights on the completion of administrative formalities rather than

⁹ W.R. Cornish, *Intellectual property: Patents, Copyright and Allied Rights* (London: Sweet & Maxwell, 1999), p.3.

¹⁰ *Ibid* at p.3.

¹¹ I. Govaere, *The Use and Abuse of Intellectual Property Rights in EC Law*, (London: Sweet & Maxwell, 1996), p.14.

¹² *Ibid* at p.14.

¹³ Articles 81 and 82 of the EC Treaty contain the Competition provisions.

¹⁴ V. Korah, *An Introductory Guide to EC Competition Law and Practice*, (London: Hart Publishing, 2000, 7th Ed.), p.257.

¹⁵ W. Tritton, *Intellectual Property Rights in Europe*, (London: Sweet & Maxwell, 1996), p.1.

arising automatically.¹⁷ It is submitted that IPR protection is increasing in importance as the amount of resources being expended on research and innovation by individuals and companies is increasing.¹⁸ This form of protection at the present time has been described as an '*indispensable asset*'.¹⁹ It is submitted in the context of European Union Law, the existence and protection conferred on this type of property is not very explicit. Article 295 E.C. (formerly Article 222) deals with the general rules surrounding property rights within the European Union. The wording of this article states that the Treaty will not interfere with property ownership in the member states.²⁰ Article 28 E.C. (formerly Article 30) deals with the issue of free movement of goods within the EU. It does not specifically mention IPRs. IPRs have been interpreted as coming under the ambit of the derogation to Article 28 E.C, (formerly Article 30) which is Article 30 E.C. (formerly Article 36). This provision refers to these rights as "industrial and commercial property". It is felt that the free movement principle is essential to attain a Common market. But the protection of

innovation is also essential to maintain a successful market once all barriers have been removed. Kelly

describes the current national regimes that govern IPRs as creating an effect analogous to islands within the

Community.²¹ It is felt that this situation goes against the notion of a Common market, as it creates artificial

barriers to trade between states. Kelly suggests that the effect of national regimes is particularly acute

where the levels of protection differ considerably between states²². The exhaustion of rights doctrine is one

of a number of interlinking concepts developed by the ECJ. This doctrine and others were designed to

¹⁶ Govaere submits that one problem with this form of individual protection is that the scope of rights granted by such a system may vary from one member state to another. Ops Cite n.14

¹⁷ W.R. Cornish, ops cite n. 9

¹⁸ *Ibid* at 3

¹⁹ Kelly, "*Parallel Imports and Intellectual Property Rights in EC Law*" seen at www.laytons.com/publications/guides/2001_november_parallel_imports_and_IP_rights.c.htm

²⁰ "This Treaty shall in no way prejudice the rules in Member states governing the system of Property Ownership"

²¹ Kelly, ops cite n.19.

²² *Ibid*

address conflicts inherent in the development of an internal market and to balance the free movement of goods and competition provisions of the Treaty.

THE EXISTENCE/EXERCISE DICHOTOMY.

The distinction between the existence and exercise of IPRs was developed by the ECJ in the well-known case of *Consten SARL & Grundig-Verkaufs-GmbH v. Commission*²³. This case concerned exclusive distribution agreements. Grundig appointed Consten to exclusively distribute goods in France. Grundig allowed Consten to register the Gint trademark in France. The contract concluded between the parties conferred on Consten the power to prohibit parallel imports of Grundig products. At paragraph 49 the ECJ opined that:

"Articles 36 (now Article 30), 222 (now Article 295) and 234 (now Article 307) of the Treaty relied upon by the applicants do not exclude any influence whatever of Community law on the exercise of national industrial property rights"²⁴.

The ECJ found that the Commission's criticism of the contract concluded between the parties did not affect the existence of trademark rights only their exercise. It has been suggested that the creation of the distinction between the exercise and existence of IPRs is an attempt to reconcile Articles 28 E.C. (formerly 30) and 30 E.C.(formerly 36) and Article 295 E.C. (formerly Article 222).²⁵The dichotomy was developed five years later in *Deutsche Grammophon Gesellschaft v. Metro -SB-Großmarkte GmbH*²⁶. The applicant undertaking marketed records in France through the company's subsidiary in France known as Polydor. Deutsche Grammophon Gesellschaft (hereinafter referred to as DGG) supplied records to Polydor in Paris. The French subsidiary subsequently resold the goods in a third country, which resold the goods in Germany, that company then passed the goods onto Metro. The problem for DGG was that Metro sold the records at an issue cheaper price than the applicant did in Germany. Consequently DGG prosecuted Metro in a Court in Hamburg for breach of Copyright. This Court made a preliminary

²³ [1966] ECR 299.

²⁴ Case 414/99, 415/99 and 416/99, Zino Davidoff SA v A&G Imports Ltd.

²⁵ C.W. Bellamy and G.D. Child, *The Common Market Law of Competition*, (London: Sweet & Maxwell, 1993), p.491, n. 7.

²⁶ [1971] ECR 487.

reference under Article 234 E.C. (formerly 177) to the ECJ enquiring if the exercise of the copyright violated the Community provisions on the free movement of goods. The ECJ stated at paragraph 11 of the judgement that:

"...although the Treaty does not affect the existence of rights recognised by the legislation of a Member State with regard to industrial and commercial property, the exercise of such rights may nevertheless fall within the prohibitions laid down by the Treaty".

Jones and Sufrin suggest that:

"It can be seen from the judgment that the Court considered that the exercise of the right to prevent the imports in this situation would go beyond the protection of the "specific subject-matter" of the right."²⁷

It is submitted that the ECJ did not define the notion of specific subject matter in this case. In the above case the Court did not articulate the doctrine of exhaustion but that it is implicit in the judgment.

The distinction has attracted a lot of criticism. It is suggested that the distinction is questionable as usually property is treated as a legal idea comprising of a bundle of legal "rights, powers, privileges and duties"²⁸. This distinction has also been described as "*not convincing*".²⁹ It is submitted that the ECJ developed the doctrine to reconcile difficulties that emerged in an attempt to create a Common Market and respect national and regional IPRs.³⁰

THE EXISTENCE OF INTELLECTUAL PROPERTY RIGHTS.

It was previously stated that the ECJ did not define the "*specific subject-matter*" of the right. This idea has been explained in subsequent cases. Craig and DeBurca suggest that

²⁷ A. Jones and B. Sufrin, *EC Competition Law, Text, Cases and Materials*, (Oxford University Press, 2001), p.565.

²⁸ Craig and DeBurca, *ops cite* n.8, p.1089.

²⁹ Jones and Sufrin, *ops cite* n.27, p.562

³⁰ Korah, *ops cite* n.14, p.259.

the specific subject matter equates to the existence of IPRs.³¹ Trademarks, patents and copyright will be looked at separately to deduce the meaning of the term with respect to these IPRs. The free movement of goods provisions are enshrined in Articles 28 E.C. and 30 E.C. Article 28 states:

"Quantitative restrictions on imports and all measures having equivalent effect, shall without prejudice to the following, provisions be prohibited between member states"

It is argued that the use of the word "*shall*" in the provision indicates the importance and fundamental nature of this freedom. The European Court of Justice (hereinafter referred to as the ECJ) has interpreted this provision very widely, which reinforces the previous point made.³² Much has been written about the history and aims of Trade Marks Directive, and of Article 7 in particular.³³ Why does it deal expressly with Community-wide exhaustion but leave the position of goods first marketed outside the Community unsaid? What is consent? What are legitimate reasons? National courts too have also been struggling to come up with the answers to these questions. Great play has been made of the fact that an early draft of Article 7 (1) excluded the words "in the Community". Did the introduction of these words bring down the portcullis at the European borders? Would that be a step backwards in terms of world trade? The exhaustion provisions in the Directive were extended to the EEA by Article 2 of Protocol 28 to the European Economic Area Agreement. The scope of this extension has been determined by the EFTA Court in a more restrictive way than might have been expected by many, in *Mag Instrument Inc v. California Trading Company, Norway, Ulsteen*.³⁴ Some of the remaining uncertainty has more recently been cleared up by the ECJ decision in *Silhouette*³⁵, but trade mark exhaustion is still fertile ground for debate.

Article 30 E.C. (formerly Article 36) is construed narrowly as it derogates from one of the goals of the Internal Market. It is stated that the reference to industrial and

³¹ Craig and DeBurca, *ops cite* n.8, p.1091

³² Korah, *ops cite* n.14, p. 259

³³ See in particular, Rasmussen, *Exhaustion of Trade Marks Pursuant to Directive 89/104* [1995] 4 European Intellectual Property Review, p.174 and Carboni, *Cases Past the post on Trade Mark Exhaustion: An English Perspective* [1997] 4 European Intellectual Property Review, p.198.

³⁴ Case E-2/97, Judgement on December 3, 1997.

³⁵ [1998] ECR I-4799.

commercial property in the Article proves that the drafters anticipated the tension that would arise from the need to respect national IPRs and the fundamental Community principle of removing national barriers that inhibit the free movement of goods. The last line of Article 30 E.C. has been described as the "*sting in the tail*" as it has been used as a means to impose restrictions on the use of national IPRs.³⁶ As already mentioned Article 295 E.C. (formerly Article 222) refers to the relationship that exists between national and EU property rights in general. This Article has caused some confusion in the area of free movement of goods as the ECJ ruled in *Consten SARL & Grundig-Verkaufs-GmbH v. Commission*³⁷ that IPRs fell within the category of protection offered by it. This decision was not delivered without provisos'. The ECJ reserved for itself the authority to examine national IPRs to ensure that they do not clash with the objectives of the Treaty. It has been suggested that the scope of Article 295 E.C. (formerly Article 222) still remains unclear, as there is some doubt as to whether it applies to public or private property ownership.³⁸

It is felt that judicial reasoning has played an important role in resolving the conflict that has arisen between national IPRs and free movement of goods. Craig and DeBurca argue that problems created by these opposing rights have been resolved by the ECJ with the aid of teleological reasoning.³⁹ They suggest the strict wording of the relevant articles left the court with little room for manoeuvre with regard to the interpretation of it.⁴⁰ The authors submit that the answer to this dilemma was found by devising the existence and exercise doctrine, which will be discussed in further detail later.⁴¹ Govaere has criticised this solution. By stating that the exercise distinction only creates legal uncertainty for IP owners.⁴² It is necessary to note that the exhaustion of rights doctrine is one of a number of doctrines developed by the ECJ in an attempt to balance the needs of the single market and the rights of IPR owners. The "*existence/exercise*" dichotomy and the idea of "*specific subject-matter*" are also interlinking concepts.⁴³ The exhaustion of rights doctrine with respect to trademarks has been codified in a European Directive. It is stated

³⁶ Jones and Sufrin, *ops cite* n.27, p.561.

³⁷ Case 56 & 58/64, [1966] ECR 299

³⁸ J. Faull and A. Nikpay, *The EC Law of Competition*, (Oxford University Press, 1999), p.580.

³⁹ Craig and DeBurca, *ops cite* n.8, p. 1089.

⁴⁰ *Ibid.*

⁴¹ *Ibid.*

⁴² Govaere, *ops cite* n.14, at p.157.

⁴³ Jones and Sufrin, *ops cite* n.27 at p.562.

that this doctrine derives its origin from the non-discrimination principle under Article 13 (formerly Article 6a) of the EC treaty. This provision states that the treaty will not allow discrimination on grounds of nationality.⁴⁴

There are three types of exhaustion of rights. These are national exhaustion, regional and international exhaustion. National exhaustion occurs when the placement of goods on the domestic market with the consent of the IP owner exhausts the IP owner's national right to have power over those goods.⁴⁵ Regional exhaustion exists where the area covered by the first marketing of the goods is more than one country. The European Union has recognised this type of exhaustion. When goods are placed on the E.U. market with the consent of the IP owner then the owners IP rights are exhausted in all the states of the E.E.A. International exhaustion occurs where the placement of goods on the market subject to the usual conditions anywhere in the world exhausts the right owners power over the goods.⁴⁶

CONSENT REGARDING EXHAUSTION OF RIGHTS DOCTRINE.

The idea of consent and the exhaustion of rights doctrine have been described as not relating to:

"...an expression of consents of intent by the trademark proprietor concerning transfer but rather to the question of accountability for the sale or marketing of the trademarked products".⁴⁷

Advocate General Stix-Hackl suggests that consent is used:

"...to ascertain whether the placing of the goods in question on the market within the EEA could be attributed to the trade mark owner"⁴⁸

The idea of consent and the exhaustion of rights doctrine were examined in the decision of *Deutsche Grammophon Gesellschaft MBH v Grobmarkte GmbH &*

⁴⁴ S. Kon and P. Schaffer, *Parallel imports of Pharmaceutical Products: A new realism or back to Basics*, [1997] 18 European Competition Law Review, p.132.

⁴⁵ T. Mylly, *A Silhouette of Fortress Europe? International Exhaustion of Trademark rights in the EU*, 7 Maastricht Journal 51.

⁴⁶ This type of exhaustion prohibits the IP owner to: "...restrict the subsequent movements of the products irrespective of where the products are first sold with his consent".

⁴⁷ Opinion of Advocate General Stix-Hackl in the joined cases C-414/99, C-415/99 and C-416/99, *Zino Davidoff SA v. A&G Imports Ltd, Levi Strauss (UK) Ltd v. Tesco Stores, Tesco Plc and Costco Wholesale UK Ltd*, paragraph 73.

⁴⁸ Advocate General Stix-Hackl's opinion again at paragraph 73.

Co. Kg. in that judgment the ECJ held in relation to the manufacturer that "...products placed on the market by him or with his consent in another Member State" would exhaust the right holders rights otherwise a conflict would arise between the free movement of goods provisions within the common market⁴⁹. In later cases the ECJ moved away from the idea of selling of goods to marketing goods. In *Centrafarm v. Winthrop*⁵⁰ the ECJ stated that:

"the exercise, by the owner of a trademark, of the right which he enjoys under the legislation of a Member State to prohibit the sale, in the State, of a product which has been marketed under the trademark in another Member State by the trademark owner or with his consent is incompatible with the EC Treaty".

The Advocate General asserted that the early concept of consent lacked uniformity. In the *Deutsche Grammophon* case the idea of the placing of goods on the market by "an undertaking dependent on the holder" was referred to by Advocate General Roemer. This case was later revised and replaced by the consent criterion. A settlement was reached in the *Keurkoop BV v. Nancy Kean Gifts BV*⁵¹ decision regarding consent in that decision, the wording:

"has lawfully been marketed in another Member State by, *or* with the consent of, the proprietor of the right himself or a person legally or economically dependent on him"⁵².

Article 7 (1) of the Trademark Directive 89/104:

"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". It is submitted that this provision is worded in a negative manner as IPRs are deemed to be derogation from the Articles in the treaty regarding the free movement of goods. As seen in the abovementioned directive codified the judgments of the ECJ with respect to the law relating to trade marks. It is submitted that the exhaustion of rights doctrine is based on the idea of consent.

⁴⁹ [1971] E.C.R. 487

⁵⁰ Case 15/74, [1974] ECR 1147.

⁵¹ [1982] ECR 2853

⁵² *Zino Davidoff SA v A&G Imports Ltd*, ops cite at paragraph 72.

In the *Merck v. Stephar*⁵³ case the Court stated that:

"...the exhaustion principle is not linked to the existence of parallel intellectual property protection, but rather to the consent of the intellectual property owner to market the product for the first time."

It is felt that this ruling is flawed with respect to the function of IPRs. In the case of *EMI v. Patricia Im-und Export*⁵⁴ the Court held that where IPRs are no longer given protection in a Member State because the duration of protection in question ends in the Member State of exportation, the IP owner in the Member State of importation can prevent the importation of those goods which have been placed on that market without authorization. In the *Pharmon BV v. Hoechst AG*⁵⁵ case an exception to the exhaustion doctrine was established where the original marketing of the product was as a result of a mandatory licence in a Member State then consent was not deemed to have been given. Some observations can be made about the issue of consent in certain judgments of the ECJ. It is submitted that the *Phytheron International SA v. Jean Bourdon SA*⁵⁶ exemplifies explicit consent. This case was heard prior to the *Silhouette* judgement. It concerned the importation of goods into the EEA from outside this area. In that case the plaintiffs argued that where a product is lawfully imported and marketed in a Member State, it enjoys the benefit of the free movement of goods within the EU.

The ECJ did not accept this argument. The Court held:

"...Article 7 (1) of the Directive cannot give the owner of a trademark, protected by the legislation of a Member State, the right to prevent importation or marketing of a product, which has been put on the market in another Member State by him or with his consent."⁵⁷

In *Silhouette* the ECJ did not take the issue of what precisely constitutes "consent" of the brand owner.⁵⁸ The ECJ noted that the first recital in the preamble to the trademark directive recognises that national trademark laws differ. The Court stated this might hinder the free movement of goods and freedom to provide services and consequently

⁵³ Case 187/80, [1981] ECR 2063

⁵⁴ Case 341/87, [1989] ECR 79.

⁵⁵ Case 19/84, [1985] ECR 2281.

⁵⁶ Case C-352/95, [1997] ECR I-1729.

⁵⁷ D. O'Keefe and B. Keane, *The Shadow of Silhouette*, 1999/2000 Yearbook of European Law 139, at 151.

distort competition in the Common Market. Therefore the approximation of laws in Member States relating to trade marks is necessary in attempting to achieve the creation and working of the Internal Market. The Court stated in the ninth recital to the preamble highlights that in order to assist the free movement of goods and services in the Common Market that the creation of a uniform level of protection in each Member State with respect to trademarks was important. The Court added the proviso that the approximation of laws relating to trade marks is not a bar for Member States providing an increased level of protection in the case of trademarks with a reputation. The ECJ concluded that as a consequence of the first and ninth recital that: Articles 5 to 7 of the directive are understood to include all harmonisation rules with respect to trademarks.

However it is felt that the issue of consent was clarified in the *Sebago* Case. It has been suggested that this issue "*seemed settled*" until the High Court of Justice in the United Kingdom passed down the judgment in *Zino Davidoff v. A&G imported Ltd.*⁵⁹ In the questions referred to the ECJ the High Court asked whether consent may be granted expressly or implicitly and directly or indirectly.

In *Zino Davidoff SA v. A&G Imports Ltd, Levis Strauss & Co Levis Strauss (UK) Ltd v. Tesco Stores, Tesco Plc and Costco Wholesale UK Ltd* A.G. Stix-Hackl opined at paragraph 99 of his opinion that:

"In the case of parallel imports from non-member countries, the trade mark proprietor's consent to placing the products in issue on the market in the EEA therefore consists of the waiver of his exclusive right to control distribution within the EEA. It is a matter for the national court, having regard to the abovementioned aspects of Community law, to examine whether the trade mark proprietor's conduct can, in the light of all circumstances of the individual case, be construed as constituting a waiver of this kind."

"Otherwise it will lead to the eventual partitioning of the internal market as the Courts of certain member states use their own national legislation to circumvent the ruling of the *Silhouette* and *Sebago* cases"⁶⁰

⁵⁸ J. Kuilwijk, *Parallel Imports and WTO Law: Some thoughts after Silhouette*, [1999] European Competition Law Review 295.

⁵⁹ [2000] Ch. 127

⁶⁰ Daly, *Silhouette Casts a Long Shadow*, April 2000, Gazette of the Incorporated Law Society Of Ireland, 20.

Finally in the *Zino Davidoff* judgment of Mr. Justice Laddie in the High Court of Justice in the United Kingdom found:

"...his way around the Silhouette decision and ignored the Ballantine (*Loendersloot v. Ballantine & Son Ltd*⁶¹) Case altogether, in applying old case law about implied consent in contracts to find that A&G Imports Ltd had a good arguable defence to trade mark infringements"⁶²

Daly has submitted with respect the then pending *Zino Davidoff* decision that:

"...the ECJ's ruling in this case will be awaited with anticipation. It is hoped that the Court will at that point take the opportunity to finally clarify what is meant in Article 7(1) by consent: should consent be explicit or is implied enough?"

The ECJ found that the answer to these questions could not be found directly in the text of the trademark directive. The ECJ did find that the rights created by a trademark are only exhausted after the "*individual items of the product*" have been marketed by the right holder or with his consent. The ECJ supported this finding with previous judgments of the Court.⁶³ The ECJ also felt that the explanation found support in Article 7 (2) of the trademark directive, which refers to the notion of specific goods when referring to "*further commercialisation of goods*".⁶⁴

It is submitted that the foregoing answer was given by the ECJ when they ruled on the issue of implied consent. It is felt that as the statement: "*consent must relate to each individual item of the product in respect of which exhaustion is pleaded*" rejects the idea of implied consent with respect to the exhaustion of rights. O' Keefe and Keane suggest that:

⁶¹ [1997] E.C.R. I-6227

⁶² A. Carboni, *Zino Davidoff S.A. v. A&G Imports Limited: A Way Around Silhouette?* [1999] European Intellectual Property Review 525.

⁶³ Such as case C-337/95 *Parfums Christian Dior v. Evora* [1997] E.C.R. I-6013, paragraphs 37 and 38, and case C-63/97 *BMW v Deenik* [1999] E.C.R. I-0000, paragraph 57.

⁶⁴ The Court came to the conclusion with respect to the two mentioned questions that the directive must be interpreted as having intended that:

"...the rights conferred by the trademark are exhausted only if the products have been put on the market in the Community (in the EEA Agreement entered into force) and that provision does not leave it open to the Member States to provide in their domestic law for exhaustion of the rights conferred by the traded mark in respect of products put on the market in non-member countries; -for there to be consent within the meaning of Article 7 (1) of that directive, such consent must relate to each individual item of the product in respect of which exhaustion is pleaded"

"*Sebago* was welcomed by brand holders as not only upholding the *Silhouette* judgment but as also extending its jurisprudence to the grey area of implied consent,⁶⁵

EXCEPTIONS TO THE EXHAUSTION OF RIGHTS DOCTRINE.

The ECJ has developed exceptions to the exhaustion of rights doctrine. One example is the case of *EMI Records v. CBS United Kingdom*⁶⁶. The facts in issue in this case arose because originally the trademark "*Columbia*" was in the common ownership of United States companies. Eventually the trademark was split as a result of business dealings. CBS owned the trademark in the United States whereas EMI owned the trademark elsewhere. EMI tried to stop CBS from manufacturing and selling records in the European Community through subsidiary operations.

The ECJ allowed EMI to prohibit CBS from doing this as the exercise of the right in question did not affect trade between member states as the records were imported from a country outside the EU. Goyder suggests that the outcome of this decision may have been different if CBS had owned the "*Columbia*" trademark in even one of the Member States following the HAG II decision.⁶⁷ In *Polydor Ltd and RSO Inc. Records v. Harlequin Record Shops*⁶⁸ the ECJ concluded a Free Trade Area agreement did not create a Single Market and therefore the defendant could not benefit from the exhaustion of rights.

A second exception was allowed in the context of *Parke Davis & Co. v. Probel & Centrafarm*⁶⁹. The Court held that the exhaustion principle did not apply where goods had originally been placed on the market in a country where no patent protection was available and without the consent of the trademark holder. It is felt that Court reached a different decision in *Merck v. Stephar*, as the company in the former case did not have the opportunity of gaining a reward for their patented product. In 1996 the ECJ held in the

⁶⁵ O'Keefe and Keane, *ops cite* n.57, at 152.

⁶⁶ [1976] ECR 811.

⁶⁷ D.G. Goyder, *EC Competition Law*, (Oxford University Press, 1998, 3rd Ed.), p.308

⁶⁸ Case 270/80, [1982] ECR.329.

⁶⁹ Case 24/67, [1968] ECR 55.

Primecrown cases that only where a legal rather than a moral obligation to supply a drug could be found that the exhaustion of rights doctrine would not have been exhausted.⁷⁰

Another exception to this doctrine was created as a result of the *Pharmon BV v. Hoechst AG*, where the original marketing of the product was as a result of a mandatory licence in a Member State. Goyder suggests a fourth exception to this doctrine. This exemption relates to the provision of services under Articles 49 to 55 (formerly Articles 59 to 66) of the Treaty. In *Coditel I*⁷¹ the ECJ held that the terms of Article 49 (formerly Article 59) did not prohibit the holder of the copyright in the *Le Boucher* film from taking an infringement action against a Belgium cable television company.⁷² In the second preliminary reference regarding (*Coditel No. 2*⁷³). The question was raised if an exclusive licence to show a particular film was liable to the provisions of Article 81 E.C (formerly Article 85). In this case the ECJ allowed an exception to the exhaustion of rights doctrine with respect to films.

It is submitted that the exhaustion of rights doctrine was created to maintain equilibrium between the attainment of an Internal Market and property rights inherent in IPRs. It is felt that this theory is a flexible tool and used by the ECJ when necessary. It is felt this doctrine curtails the value of IPRs. Exceptions to this principle have been created where necessary to create equitable results. A doctrine of international exhaustion which is applied in accordance with general principles of subsidiarity, effective protection and proportionality ought to be workable alongside a doctrine of European exhaustion whether or not it derives from case law or legislation. Despite a similar approach under both doctrines, the distinction as to whether goods were marketed with the consent of the IPR owner inside or outside the EEA would inevitably affect the outcome of the relevant doctrine on the enforcement of a national IPR. For example, the court is more likely to be satisfied of a necessary and proportionate need to enforce a limited territorial restriction on the resale of products, first marketed outside the EEA, by an action for infringement than it would be to enforce a similar territorial restriction against products first placed on

⁷⁰ Joined Cases C-267/95 C-268/95. Merck & Co. INC., Merck Sharp & Dohme International Services BV v. Primecrown Ltd, Ketan Himatlal Mehta, Bharat Metha and Necessity Supplies Ltd. And Beecham group Pie v. Europharm of Worthing Ltd, [1996] E.C.R. I-6285.

⁷¹ *Coditel v. SA Ciné Vog Films*, case 62/79, [1980] ECR 881.

⁷² Goyder, *ops cite n.67*, at 311

⁷³ *Coditel v. SA Ciné Vog Films*, case 262/81, [1982] ECR 3381.

the market within the EEA because of the greater difficulty outside the EEA under contract law, the greater legal and economic differences between the national and foreign markets and the lesser detriment to competition within the EEA through the interference with the free movement of goods originating outside the EEA.

Moreover, any attempts now to develop a limited doctrine on international exhaustion would have to take into account that the protection of specific subject-matter of an IPR requires protection of a commercially viable operation to exploit the subject-matter of the IPR, as well as the preservation of the integrity of the subject-matter itself. Hence, in circumstances where the short-term availability of international parallel imports at discounted prices and consequent increase in intra-brand competition is likely to jeopardise the long-term availability of domestic or European goods at higher but reasonable prices and undermine inter-brand competition, it would be contrary to the purpose of the principle of the free-movement of goods to permit the imports. Since the Commission now accepts that in many cases authorised dealers require some kind of territorial protection in order for their operation to be commercially viable, there is no reason why it should not give territorial protection to traders against parallel importers that are genuine, to the extent necessary to protect the viability of domestic operations.⁷⁴ Such a risk is particularly high where the parallel importer can benefit unfairly from price differences, for example where demand for the product is supported by expensive promotions in the country of importation which are reflected in higher prices, or where discounted products are diverted in countries of exportation from where they were intended to meet special needs at a non-profit making level such as health, charitable or educational organisations, however, the opportunity to develop a doctrine of international exhaustion,⁷⁵ if it exists now, may not last long as the most recent drafts of pending harmonisation directives for designs and copyright expressly rule out the possibility of international exhaustion. It is only if multi-national companies can be persuaded that a limited doctrine of international exhaustion would be in their best interests that the legal position is likely to change.

⁷⁴ See for example the New Block Exemption Legislation on Vertical Agreements (E.C. 2790/99)

⁷⁵ The Design Right Proposal mirrors the wording of the TM Directive, while the present drafts of the Copyright Directive and Utility Model Directive ([1998] O.J. C36/13, Art.21) expressly exclude international exhaustion.

Given that the real threat to those companies is not from parallel imports but from counterfeiters or infringing third-party goods, a limited doctrine of exhaustion might assist them in such battles, allowing them to identify the source of the parallel import such that they are able to control their distribution more effectively. The fear of floodgates opening following the adoption of a limited doctrine of exhaustion is likely to be unfounded⁷⁶ Even if a measure to enforce a national IPR were, exceptionally, found to be subject to Article 28 because it was capable of affecting trade within Member States IPR owners would be free to enforce their national rights to the extent necessary and proportionate to the achievement of their legitimate aim, normally the protection of the specific subject matter of the national IPR in accordance with Article 3 O.⁷⁷ Only in extremely rare cases where a measure to enforce a national IPR against goods first marketed outside the EEA was being used to arbitrarily discriminate or as a disguised restriction on trade (where restriction is contrary to Articles 81 or 82) would it not benefit from Article 30 having been held to be subject to and incompatible with Article 28, such that enforcement of a measure would be precluded, giving rise to a limited doctrine of international exhaustion in respect of goods.⁷⁸

INCREASED LITIGATION AFTER SILHOUETTE

One negative effect of *Silhouette* and subsequent cases has to be the level of litigation by interested parties created as a result. On the one hand trademark owners will initiate legal proceedings against parallel imports for infringing their protected rights. While on the other hand retailers will have to defend their interests in these proceedings while at the same time exploring every possible legal avenue open to them in an attempt to overturn the *Silhouette* decision. Dugan suggests that trademark owners will only resort to litigation in the short term, as retailers will withdraw from such measures on the realisation that the proceedings are costing them and their consumers financially without

⁷⁶ See the NERA report: *Economic Consequences of the Choice of Regime of Exhaustion in the Area of Trade Marks*, February 8, 1999.

⁷⁷ As regards justification for the protection of specific subject matter of IPR see most recently the joined cases of *Glaxo, Boehringer, SK Beecham v. Dowelhurst* (February 28, 2000, unreported) where Laddie J. proposed to refer the issue to the B.C.

⁷⁸ A limited doctrine of this kind would only likely develop under Arts 28 and 30 in relation to goods. It could not lead to the exhaustion of IPRs in relation to services protected by IPRs such as performances through live broadcasts or the distribution of recordings for rental, which would fall to be considered under Arts 49 to 55. Community case law establishes that there are unlikely to be any circumstances where the IPR owners are not justified in restricting the onward supply of IPR protected services.

achieving the desired results.⁷⁹ It is argued that this will probably result in an accurate forecast of the likely events as the retailers are in a no win situation. If they pursue continuous legal action the consumer will inevitably end up bearing the burden as a result of price increases and then the retailer will lose out to competitors anyway.

Another aspect of *Silhouette* and subsequent cases is the reaction to them by the public and government. Murphy feels that the pressure exerted on brand owners to increase choice and lower prices will reduce the right holders capacity to isolate EEA Markets with the result that the saying "rip-off Britain" will no longer exist.⁸⁰ The effect of *Silhouette* on the interests of trademark has been perceived to be positive. This case effectively gives trademark owners the power to prevent parallel imports from outside the EEA even in circumstances where the product was put on the market by the trademark owner or with his consent without any interference from a third party. The trademark owner can do this by using national trademark rights. It is submitted that this situation in effect creates a fortress Europe for trademark owners. The extra control bestowed on trademark owners as a result of the judgment has been criticised as contrary to the objective of converging national markets.⁸¹ It is felt this criticism is justified when the decision is looked at in the light of the function of a trademark, which is to guarantee the origin of goods. It is observed this increased protection will result in more litigation as the outcome of the case gives the correct holder the right to take legal action against unauthorised distributors who market their goods in the EEA.⁸² Before the landmark *Silhouette* decision trademark owners were hesitant to initiate legal proceedings in relation to infringement of their trademark rights. They viewed such action as being a:

"waste of time and money in the European Courts due to uncertainty surrounding the international exhaustion doctrine"⁸³.

Following the resolution of this uncertainty it is estimated that the level of litigation will increase at least for a short time as the likelihood of a successful outcome on the part of trademark holders has been increased. There are some limitations to the usefulness of this of action. One problem, which has been noted, is the difficulty of the right holder to

⁷⁹ E. Dugan, *United States of America, Home of the Cheap and the Gray: A Comparison of Recent Court decisions affecting the U.S. and European Gray Markets*, [2001] 33 Geo. Wash. INT'L Rev., 397

⁸⁰ G. Murphy, *Who's wearing the Sunglasses Now?*, [2000] European Competition Law Review 1, at p.6.

⁸¹ C. Poll, *Fortress Europe - How Grey is Grey?*, The International Trade Law Quarterly 170.

⁸² Dugan, *ops cite n.79*.

calculate, with accuracy, loss sustained when seeking an injunction as a result of parallel importation. However, a possible advantage of this action may be that the source of the parallel goods would be exposed and the fact that parallel importation may not in fact cause much damage to the revenue of the right holders.

LEGITIMATE REASON

It is submitted that Article 7(2) of the trademark directive gives a trademark holder who has a genuine reason the right to interfere with the free movement of goods to protect the reputation and quality of their goods. It is felt that this exception is reasonable in the circumstances in order to protect investment and encourage trade. It is felt that it is not a disguised restriction on trade aiming to divide markets. Article 7(2) states that:

"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".

Urlesberger suggests that it is hard to define the scope of the term '*legitimate reasons*'.⁸⁴ Urlesberger suggests that the exact interpretation of the phrase '*legitimate interests*' will only be reached if the ECJ devise criteria to do this.⁸⁵ The provision in effect protects the trademark holder losing control over their goods. It is submitted that the opinion delivered by A.G. Stix-Hackl in *Zino Davidoff SA v. A&G Imports Ltd*, although not binding, illustrates well the law in this area with respect to the interpretation of the term '*legitimate reasons*'. In this opinion A.G. Stix-Hackl opined that the legitimate reasons necessary to depart from the principle enshrined in Article 7(1) of the said directive includes:

"...any actions of third parties which seriously affect the value, allure or image of the trade mark or the products which bear that mark."⁸⁶

⁸³ *Ibid.*

⁸⁴ F.C. Urlesberger, '*Legitimate Reasons*' for the Proprietor of a Trademark Registered in the E.U. to oppose further Dealings in the Goods after they have been put on the Market for the First Time, [1999] *Common Market Law Review* 1195, at 1196.

⁸⁵ *Ibid.*

⁸⁶ *Zino Davidoff v. A&G Imports Limited*, ops cite n.24, at paragraph 123 (4).

It is felt this opinion is important from the point of view of explaining actions that do not constitute legitimate reasons. A.G. Stix-Hackl suggests the term does not include:

"...the actions of third parties or circumstances which do not affect the rights constituting the specific subject-matter and the essential function of the rights conferred by the trade mark."⁸⁷

In the most recent opinion delivered in this area A.G. Jacobs in the joined cases of *Merck, Sharp & Dohme GmbH v. Paranova Pharmazeutika Handels GmbH*⁸⁸ and *Boehringer Ingelheim Pharma KG and others v. Swingward Ltd and Others*⁸⁹ with respect to Article 7(2) that it: ".does not entitle a trade mark owner to oppose the marketing of a pharmaceutical product put on the market under his trade mark where the importer has repackaged it and reaffixed the trade mark and has complied with the other requirements set forth in the Court of Justice judgment in joined Cases C-427/93, and C-429/93 and C-436/93 *Bristol-Myers Squibb and Others*..."⁹⁰

Also in this case, A.G. Jacobs noted, in his opinion to the court, that the prohibition of necessary repackaging by parallel importers constitutes a breach of Article 7(2) of the trademark directive and the free movement provisions.⁹¹ The A.G. stated that where parallel importers propose to repackage goods they must inform the right owner of their intentions within a reasonable period of time. Urlesberger suggests, with respect to repackaging cases that the ECJ requires that the original condition of the good be affected in a negative manner. He argues that improvement to goods may be allowed.⁹² That author also suggests that there are exceptions to the aforementioned situations. For instance the trademark owner can only prevent the use of their mark if it is being used "in the course of trade"⁹³. It has been suggested that the ECJ recognise that trademark owners may rely on their trademark rights to prevent parallel imports. Urlesberger further suggests that:

⁸⁷ *Ibid* at paragraph 5.

⁸⁸ Case C-443/99.

⁸⁹ Case C-143/00.

⁹⁰ *Ibid* at paragraph 137

⁹¹ C-143/00 at paragraph 137.

⁹² Urlesberger, *ops cite* n.84 at 1200.

⁹³ The term "in the course of trade" is explained at article 5 of the Trade Mark Directive 89/104.

"This constitutes potentially an immense extension of legitimate reasons for a trade mark owners to deploy their trademark rights against parallel imports."⁹⁴

ESTABLISHING FORTRESS EUROPE.

It is felt the outcome of *Silhouette* has resulted in the establishment of a fortress Europe. The *Silhouette* decision effectively prohibits the possibility of international exhaustion being practiced by Member States. Community-wide exhaustion of trademarks reinforces the sanctity of the internal market. O'Keefe and Keane suggest this doctrine was created in an effort to safeguard the establishment of the Internal Market.⁹⁵ It is submitted *Silhouette* can be regarded as a catalyst in the establishment and protection of the Internal Market. An interesting observation following the *Silhouette* decision highlights that external factors may have influenced the outcome of the decision. It is suggested that this decision is in fact the successful result of lobbying on the part of Member State Governments, the Commission and even private industrial bodies opposed to international exhaustion.⁹⁶ Other commentators have also come to a rather similar conclusion. O'Keefe and Keane describe it as:

"...the fruit of careful nurturing and timing rather than as an *ad hoc* policy"⁹⁷

It is observed, if this is correct, that the ECJ on the one hand got caught up in judicial activism and may have jeopardised the integrity and impartiality of the Court. On the other hand the findings of the Court may be interpreted as guarding the spirit of the internal market or else just interpreting the express intentions of the legislation. In this respect it may be felt that the Court had no option but to come to the findings that it ultimately did. The impact of *Silhouette* on the Internal Market may be viewed as being protectionist in nature. It is admitted the practical effect of the decision results in international barriers to trade, which is in effect are protectionist.⁹⁸ It is suggested the

⁹⁴ Urlsberger, *ops cite* n.84, at 1209

⁹⁵ O'Keefe and Keane *ops cite* n.57, at 139.

⁹⁶ F.M. Abbott and D.W Verkade, *The Silhouette of a Trojan Horse: Reflections on Advocate General Jacobs' Opinion in Silhouette v. Hartlauer* [1998] *Journal of Business Law* 413

⁹⁷ O'Keefe and Keane, *ops cite* n.57, at 158.

⁹⁸ W.J. Littman, *The Case of the Reappearing Spectacles-the future is not so bright for International Parallel Importers: the ECJ after Silhouette International Schmied GmbH & Co. KG. V. Hartlauer Handelsgesellschaft GmbH*, 7 *Tulane Journal of International And Comparative Law* 479.

decision makes the level of protection pertaining to trademarks and the interpretation of the rules governing them uniform in the Community.⁹⁹ Following the decision Mario Monti the former Single Market Commissioner suggested the European Commission might contemplate incorporating the doctrine of international exhaustion with respect to trademarks. After the Nera Berwin report was published any possibility of doing this was reneged upon.¹⁰⁰ It is argued the perceived dangers associated with these rights due to their territorial character and effect on inter Community trade necessitated the development of this principle. The interpretation of this codified rule was an issue in the mentioned case. It is argued that the maximum interpretation of the provision protects the internal market. It is felt a minimum interpretation of the relevant provision would have resulted in inconsistencies within the EU with regard to the level of protection available to IP owners. If the ECJ had allowed the principle of international exhaustion to exist in the EU, the effect would be to permit Member States to conclude unilateral trade agreements with third countries, which would adversely effect the development of the internal market. Some states have allowed international Exhaustion in the past whereas others have not.¹⁰¹ Abbott and Feer Verkade suggest that as far back as the 1960's the ECJ perceived the possible difficulties associated with IP rights and their potential to partition the Internal Market after other barriers such as tariffs and quotas are abolished.¹⁰²

TRADEMARK PROTECTION

The trademark directive provides guidance as to the function of trademarks. In the tenth

recital to the directive the function is described as:

"...in particular to guarantee the trade mark as an indication of origin, is absolute in the case of identity between the mark and the sign and goods or services..."¹⁰³

⁹⁹ E. Gippini-Foumier, *Case C-355/96, Silhouette International Schmied GmbH & Co. KG v. Hartlaurer Handelsgesellschaft GmbH, Judgment of 16 July 1998, [1998] E.C.R I-4799, [1999] Common Market Law Review 830.*

¹⁰⁰ Nera-Berwin, ops cite n.76.

¹⁰¹ France and the Netherlands traditionally allowed international exhaustion but following the Gefärbte Jeans BGH of 14 December 1995. They reduced the level of protection to Regional Exhaustion.

¹⁰² Abbott and Feer Verkade, ops cite n.96.

¹⁰³ First Council Directive 89/104/EEC of 21 December 1988 to approximate the laws of the Member States relating to trade marks, The Tenth Recital.

Baudenbacher states that the function of origin phrase has been the most commonly litigated aspect of the directive.¹⁰⁴ An example of one such case is *IHT Internationale Heiztechnik GmbH v. Ideal-Standard GmbH*.¹⁰⁵ In this case following their own decision in HAG II the ECJ decided that the essential function of a trademark under Community law is to:

"offer a guarantee that all goods bearing it have been produced under the control of a single undertaking which is accountable for their quality"¹⁰⁶

In the more recent decision of *Bristol-Myers Squibb v. Paranova A/S*¹⁰⁷ the ECJ reiterated that the function of a trademark revolved around idea that it must:

"...constitute a guarantee that all products which bear it have been manufactured under the control of a single undertaking to which responsibility may be attributed".

This case also followed the definition attached to the function of trademarks, which was enunciated in *SA CNL-Sucal v. HAG GFAG*¹⁰⁸, which is more commonly known as HAG II. It has been suggested that the opinion and judgment delivered in *Silhouette* convey that the inviolability of the Internal Market is more important than the traditional notion of the function of a trademark.¹⁰⁹ It is argued that the *Silhouette* case changes the function of trademarks as it permits the brand owner to prohibit imports from outside the EEA, which results in an increased level of protection available to them. Poll suggests that the outcome:

"...creates an arbitrary form of discrimination and restraint of trade, an end result which is beyond a trademark's function"¹¹⁰.

CONDEMNATION OF THE SILHOUETTE DECISION.

The *Silhouette* decision has also been condemned, as it seems that the increased protection has been granted at the expense of consumers by strengthening monopolies.¹¹¹ The effect of *Silhouette* will impact on the parallel importers business in a variety of

¹⁰⁴ C. Baudenbacher, *Trademark Law and Parallel imports in a Globalised World-Recent developments in Europe with special regard to the Legal situations in the United States*, (1999) 22 *Fordham International Law Journal*. 645.

¹⁰⁵ Case C-9/93, [1994] ECR I-2789.

¹⁰⁶ *Ibid* at Paragraph 37

¹⁰⁷ [1996] ECR I-3457.

¹⁰⁸ [1990] ECR I-3711.

¹⁰⁹ H. Norman, *Parallel imports From Non-EEA Member States: The Vision Remains Unclear*, [2000] *European Intellectual Property Rights* 159, at 163.

¹¹⁰ Poll, *ops cite* n.81, at 176.

¹¹¹ Baudenbacher, *ops cite* n.104.

ways. For instance, traditionally these traders took advantage of price differences to offer goods at a reduced price to consumers while also being able to make a profit for themselves.¹¹² It is argued that following *Silhouette* the grey marketers will have a substantially more limited market in which to source goods as it has been reduced in size from a global to EEA one. Cornish has provided justifications for the existence of price differentials that exist between various markets. He suggests the cost of promoting goods can vary from one market to another depending on the traditional tastes of consumers in that region. An example of this would be introducing whisky into a traditional beer-drinking society.¹¹³ Harlander suggests that parallel traders can profit by benefiting from advertising and promotional endeavours of authorised dealers.

It is felt in this regard the parallel trader is assured of a quick and successful disposal of the imported goods without incurring costs of this type, which are often substantial. It is argued in the effect of *Silhouette* will severely restrict the parallel importers business as goods can only legally be sourced within the EEA, it is also felt that the range of grey goods offered by grey marketers will also be reduced as a result of the decision. It is suggested that there may be an indirect positive outcome for retailers following the *Silhouette* judgment. This is the level of support expressed by the public in support of retailers and their practice of selling grey goods. Even the UK Consumer Affairs Minister, Kim Howell supports parallel trading.¹¹⁴ It is argued that this positive reaction on the part of the public on the one hand and public officials on the other amounts to a moral victory if nothing else for retailers. It has been submitted that this type of reaction will also encourage brand owners to consider carefully the potential negative media attention created if they challenge the actions of retailers if public support for this activity is in favour of retailers. The *Davidoff* decision in the UK may provide a degree of hope to retailers. It is felt that this could be short-lived depending on the outcome of the preliminary reference. Murphy observes that case may appear to bestow on parallel importers the "*green light*" to import goods from outside the EEA, but that caution should be practiced until the trademark directive has been implemented.¹¹⁵

¹¹² Cornish, ops cite n.9, at 173.

¹¹³ *Ibid.*

¹¹⁴ Poll, ops cite n.81, at 175.

REFORM.

The issue of international exhaustion has been discussed by the EC Internal Market Council of Ministers who requested a working paper on the issue from the Commission.¹¹⁶ In this working paper, which in turn follows a commissioned Report on the economic consequences of an exhaustion regime in the EEA,¹¹⁷ the commission puts forward the options of change to the existing law on exhaustion of trademark rights. It is argued that the issue here is whether to introduce change at either the EC or national level or whether to change the law in relation to both systems. The Commission, echoing the *Silhouette* judgment, argues that consistency is important between EC and national law in order to avoid confusion. It also notes that as it is small businesses which predominately use national law while large companies have recourse to the supranational EC rules, it would place these companies on a more equal footing if the two sets of rules were consistent. Differentiation between property rights is another issue, and whether the law on exhaustion only needs to be changed for trademarks, or whether change is needed also for intellectual property rights such as patents and copyright. Given that trademarks are more important in some sectors (e.g. clothing and perfume), legislation could be drawn up containing either an inclusive (international exhaustion would apply to the products listed) or exclusive (international exhaustion would be excluded for specific products) list. The main difficulty here would be to identify and define particular sectors. The list would have to be subject to revision and there would be resource implications for the Commission, which would have to monitor the list. If the EC were to unilaterally introduce international exhaustion this could place EC trademark holders at a disadvantage in relation to other countries e.g. the United States. To avoid such disadvantages, the EC could enter into bilateral agreements with countries carefully chosen in order to avoid unbalanced competition e.g. on the basis of their level of intellectual property protection, market conditions, pricing and possibly their GNP. The arguments in favour of the current EC regime of exhaustion in the EEA only is that return on investment by the trademark holder is higher, thus improving the range and quality of

¹¹⁵ Murphy, *op cit* n.80, at 3.

¹¹⁶ Commission Staff-Working Paper Exhaustion of Trade Mark Rights, 9 December 1999 seen at www.europa.eu.int

¹¹⁷ NERA, *The Economic Consequences of the Choice of a Regime of Exhaustion in the Area of trademarks*. Final Report for DGXV 8 February 1999, London.

products. It ensures that EC companies are not placed at a disadvantage vis à vis those countries which do not have international exhaustion.

CONCLUSION.

What is clear from the discussion of reform, is that the priority given to integration of the market by the ECJ has simply shifted the focus to the political domain where that integration concern is no longer to the forefront as interested trademark holders and parallel importers seek to persuade their national governments and the Commission as to how best to change the law. This is not to suggest that the ECJ arrived at the wrong conclusion in *Silhouette*, earlier drafts of the Directive had referred to international exhaustion but these were later removed and there is a clear reference to Community exhaustion only in the final version. The imperative of the internal market shaped the jurisprudence of the Court on intellectual property rights generally long before harmonisation measures emerged. Thus on historical and literal basis, there was very limited room for manoeuvre for the Court. Where it did have greater discretion was in the *Sebago* case given that consent is not clarified within the directive. If *Sebago* had gone the other way, as Laddie J. so keenly argues in *Zino Davidoff*, then the conceptual consistency surrounding the function of trademarks could have been required. However, finally the above discussion shows the overwhelming importance of the logic of the internal market for the ECJ.

Thus based on this premise and to morph the words of **Mark Twain** *...it may equally be argued that the report of the death of intellectual property in cyberspace was an exaggeration.*¹¹⁸

¹¹⁸ "The report of my death was an exaggeration." Mark Twain (Samuel Longhorn Clemens) New York Times Journal, June 2, 1897.