ADVISORY OPINION OF THE COURT
3 December 1997*

(Exhaustion of trade mark rights)

In Case E-2/97

REQUEST to the Court under Article 34 of the Agreement between the EFTA States on the Establishment of a Surveillance Authority and a Court of Justice by Fredrikstad byrett (Fredrikstad City Court) for an Advisory Opinion in the case pending before it between

Mag Instrument Inc.

and

California Trading Company Norway, Ulsteen

on the interpretation of First Council Directive 89/104/EEC of 21 December 1988 to approximate the laws of the Member States relating to trade marks.

THE COURT,

composed of: Bjørn Haug, President, Thór Vilhjálmsson and Carl Baudenbacher (Rapporteur), Judges,

Registrar: Per Christiansen,

---

* Language of the Request for an Advisory Opinion: Norwegian.

after considering the written observations submitted on behalf of:

– the plaintiff, Mag Instrument Inc., represented by Counsel Bente Holmvang, Advokatfirma Bull & Co. ANS, Oslo;

– the defendant, California Trading Company Norway, Ulsteen, represented by Counsel Camillo Mordt, Advokatene i Vægtergården, Fredrikstad;

– the Government of the Principality of Liechtenstein, represented by Christoph Büchel, EEA Coordination Unit, and Katja Gey-Ritter, Office for Foreign Affairs, acting as Agents;

– the Government of the Kingdom of Norway, represented by Jan Bugge-Mahrt, Assistant Director General, Royal Ministry of Foreign Affairs, acting as Agent;

– the Government of the Republic of France, represented by Kareen Rispal-Bellanger and Philippe Martinet, acting as Agents;

– the Government of the Federal Republic of Germany, represented by Alfred Dittrich and Ernst Röder, acting as Agents;

– the Government of the United Kingdom, represented by Lindsey Nicoll, Treasury Solicitor's Department, acting as Agent;

– the EFTA Surveillance Authority, represented by Håkan Berglin, Director, Legal & Executive Affairs, acting as Agent;

– the EC Commission, represented by Berend Jan Drijber, member of its Legal Service, acting as Agent,

having regard to the Report for the Hearing,

after hearing the oral observations of the Government of Liechtenstein, the Government of Norway, the EFTA Surveillance Authority and the EC Commission at the hearing on 11 November 1997,

gives the following

Advisory Opinion

1 By an order dated 16 May 1997, registered at the Court on 21 May 1997, Fredrikstad byrett, a Norwegian City Court, made a request for an Advisory Opinion in a case brought before it by Mag Instrument Inc., California, United States, against California Trading Company Norway, Ulsteen, Norway.

2 The questions submitted by the Norwegian court concern the interpretation of Article 7, paragraph 1 of Council Directive 89/104/EEC (OJ No L 40, 11.2.1989, p. 1, hereinafter the "Trade Mark Directive"). The Trade Mark Directive is referred to in Annex XVII to the EEA Agreement (EEA). Pursuant to Article 65(2) EEA and Annex XVII, point 4(c), Article 7(1) of the Trade Mark Directive shall, in the EEA context, be replaced by the following:

> *"The trade mark shall not entitle the proprietor to prohibit its use in relation to goods which have been put on the market in a Contracting Party under that trade mark by the proprietor or with his consent."*

3 Article 2(1) of Protocol 28 on Intellectual Property deals with "exhaustion of rights". It reads as follows:

> *"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."*

4 The Norwegian Act No. 4 of 3 March 1961 relating to trade marks (the "Trade Mark Act"), as amended by Act No. 113 of 27 November 1992, contains no explicit rules on exhaustion. However, it is established Norwegian law that international exhaustion applies for trade marks.

5 The plaintiff, Mag Instrument Inc., is an American company that produces and sells the so-called Maglite lights. The lights are produced in the United States and sold around the world. In Norway, Viking International Products A/S, Oslo, is the authorized importer and sole distributor for these products. The plaintiff has protected the trade marks for its various products by registering them in Norway, partly by registering word trade marks and partly by registering design trade marks.

6 The defendant, California Trading Company Norway, Ulsteen, has carried on parallel imports by importing Maglite lights directly from the United States into Norway for sale in Norway. The plaintiff has not given its consent to these imports.

7 Arguing that the imports infringe its exclusive trade mark rights, the plaintiff brought proceedings against the defendant and requested that the defendant be prohibited from selling the various Maglite lights in Norway. The plaintiff also claims compensation for the loss it has sustained due to the defendant's sales.

8 The plaintiff considers the import and further sale of Maglite lights bearing the various registered trade marks in Norway without its consent to be a violation of section 4 of the Norwegian Trade Mark Act and Article 7(1) of the Trade Mark Directive. The plaintiff claims that its trade mark rights are not exhausted and that EEA regional exhaustion must apply in Norway. In the view of the plaintiff, EEA-wide exhaustion is not only the minimum but also the maximum that Contracting Parties may provide for.

9 According to the defendant, the rule of international exhaustion of trade mark rights has continued to apply after the implementation of the Trade Mark Directive.

10 Considering that it was necessary to interpret provisions of the EEA Agreement in order to reach a decision and pursuant to Article 34 of the Agreement between the EFTA States on the Establishment of a Surveillance Authority and a Court of Justice ("Surveillance and Court Agreement"), Fredrikstad byrett submitted a request to the EFTA Court for an Advisory Opinion on the following questions:

> *1. Is Article 7, paragraph 1 of Council Directive 89/104/EEC to be understood as conferring a right on a trade mark proprietor to prevent an import from a third country outside the EEA, when said import takes place without the consent of the trade mark proprietor?*
>
> *2. In other words, is the same provision to be understood to the effect that exhaustion of the trade mark right may neither be limited to national exhaustion nor expanded to include international exhaustion?*

11 Reference is made to the Report for the Hearing for a fuller account of the legal framework, the facts, the procedure and the written observations submitted to the Court, which are mentioned or discussed hereinafter only in so far as is necessary for the reasoning of the Court.

The questions

12 The *plaintiff*, the *French Government*, the *German Federal Government*, the *Government of the United Kingdom* and the *EC Commission*, all referring to the wording, the legislative history and the purpose of the Trade Mark Directive, state that national law cannot properly be limited to national exhaustion nor provide for a general principle of international exhaustion.

13 The *Liechtenstein Government* and the *EFTA Surveillance Authority* argue that Art 7(1) of the Trade Mark Directive is not relevant for the determination of whether a trade mark proprietor in an EEA/EFTA State is entitled to rely on a national right in order to prevent a product which has been produced and placed on the market by a proprietor or with his consent in a country outside the EEA from being imported without his consent.

14 The *Norwegian Government* states that more limited exhaustion than international exhaustion will allow for price discrimination, stronger segmentation of the markets and reduced price competition, thereby lessening the efficiency of the economy.

15 The principle of exhaustion of the rights conferred by a trade mark was established by the ECJ case law in judgments interpreting Articles 30 and 36 of the EC Treaty on the free movement of goods before the enactment of the Trade Mark Directive. It has held that the owner of a trade mark protected by the legislation of a Member State cannot rely on that legislation to prevent the import or marketing of a product which was put on the market in another Member State by him or with his consent (see Cases 16/74 *Centrafarm* v *Winthrop* [1974] ECR 1183, paragraphs 7-11, and C-9/93 *IHT Internationale Heiztechnik* v *Ideal Standard* [1994] ECR I-2789, paragraph 33, hereinafter "*Ideal Standard*"). In the *EMI* ruling (Case 51/75 *EMI Records* v *CBS United Kingdom Limited* [1976] ECR 811, paragraph 10, hereinafter "*EMI*"), the ECJ held that the exercise of a trade mark right in order to prevent the marketing of products coming from a third country under an identical mark does not affect the free movement of goods between Member States and thus does not come under the prohibition set out in Article 30 of the EC Treaty.

16 From this case law it follows that the ECJ has ruled out national exhaustion and established Community-wide exhaustion as a minimum standard. According to this principle, the trade mark right cannot be used to hinder the free movement of goods once they have been marketed by the proprietor of the trade mark or by another person with his consent in a Member State of the Community.

17 The principle of exhaustion of trade mark rights and the exceptions to this rule have been laid down in Article 7 of the Trade Mark Directive. The case law cited above is reflected in this provision. The ECJ has stated that Article 7 of the Trade Mark Directive is worded in general terms and comprehensively regulates the question of the exhaustion of trade mark rights for products traded in the Community and that, where Community directives provide for the harmonization of measures necessary to ensure the protection of the interests referred to in Article 36 EC, any national measure relating thereto must be assessed in relation to the provisions of that directive and not Articles 30 to 36 EC (see joined Cases C-427/93, C-429/93 and C-436/93 *Bristol-Myers Squibb and Others* v *Paranova* [1996] ECR I-3457, paragraph 25-26).

18 In the EC context, the ECJ has so far not dealt with the question of whether Article 7(1) of the Trade Mark Directive prohibits the Member States from maintaining or introducing national legislation allowing for international exhaustion. For the time being, however, there are two cases pending before the ECJ concerning this question (see pending Cases C-355/96 *Silhouette International Schmied Gesellschaft MbH & Co KG* v *Hartlauer Handelsgesellschaft MbH* and C-278/97 *Wrangler Germany GmbH* v *Metro Selbstbedienungs-Grosshandel GmbH*).

19 The EFTA Court notes that the principle of international exhaustion is in the interest of free trade and competition and thus in the interest of consumers. Parallel imports from countries outside the European Economic Area lead to a greater supply of goods bearing a trade mark on the market. As a result of this situation, price levels of products will be lower than in a market where only importers authorized by the trade mark holder distribute their products.

20 Furthermore, the principle of international exhaustion is in line with the main function of a trade mark, which is to allow the consumer to identify with certainty the origin of the products. The ECJ has defined the specific subject-matter of a trade mark to be to guarantee the identity of the origin of the trade-marked product to the consumer or ultimate user, by enabling him or her to distinguish without any possibility of confusion that product from products which have another origin (see Case 102/77 *Hoffmann-La Roche & Co. AG* v *Centrafarm Vertriebsgesellschaft Pharmazeutischer Erzeugnisse mbH* ECR [1978] 1139, paragraph 7). This main goal does not come into question in the present case since the products imported are original goods bearing the original trade mark and stemming from the proprietor of the mark. The quality or guarantee function of a trade mark may be regarded as part of the function of origin. Furthermore, the ECJ has recently pointed out the importance of protecting the goodwill of a trade mark (see Case C-337/95 *Parfums Christian Dior SA and Parfums Christian Dior BV* v. *Evora BV*, not yet reported, paragraphs 39 et seq.). The EFTA Court notes, however, that the protection of goodwill cannot be regarded as a main function of a trade mark right that would require a ban on parallel imports. The principle of international exhaustion is therefore fully consistent with the function of the mark as indicator of origin.

21 From the wording of Article 7(1) of the Trade Mark Directive, as reflected in point 4(c) of Annex XVII to the EEA Agreement, it does not follow clearly whether the EEA Contracting Parties are allowed to maintain or introduce at the national level the principle of international exhaustion of rights.

22 Article 2 of Protocol 28 to the EEA Agreement stipulates that the Contracting Parties shall provide for such exhaustion of intellectual property rights as are laid down in Community law. Without prejudice to future developments of case law, this provision is to be interpreted in accordance with the meaning established in the relevant rulings of the ECJ given prior to the signature of the

Agreement. In this context, the Court notes that the judgments of the ECJ at the time of signature of the EEA Agreement ruled out national exhaustion but did not require the EC Member States to give up the principle of international exhaustion. Furthermore, there is no case law of the ECJ to date which rules out international exhaustion of rights. Therefore, the meaning of Article 2 of Protocol 28 is *a priori* limited to the extent that EEA-wide exhaustion has to be established in the EEA/EFTA States as a minimum that Contracting Parties may provide for. The provision is not relevant to answer the question whether these States may still provide for a general principle of international exhaustion.

23 The legislative history of the Directive shows that the first proposal of the Directive (OJ No C 351, 31.12.1980, p. 1), which made provision for international exhaustion, was changed and the modified proposal (COM(85) 793) explicitly limited the exhaustion rule to goods which had been put on the market "within the Community". Nevertheless some Member States in the Community and in EFTA either retained international exhaustion or left the question open for interpretation by the national courts.

24 Further, the main argument of the Government of France, the Federal Government of Germany, the Government of the United Kingdom and the EC Commission against interpreting Article 7 of the Trade Mark Directive in favour of international exhaustion is that if individual States are allowed to determine freely whether holders of rights are able to object to imports from third countries, it could lead to a situation where the same products may be subject to parallel imports into one State, but not into another. This could lead to internal disparities in the market. Therefore, they submit that the principle of free movement of goods must be the same in all Member States and that that principle must also apply for the EEA.

25 This argumentation has to be rejected in so far as it concerns the EFTA States. Unlike the EC Treaty, the EEA Agreement does not establish a customs union. The purpose and the scope of the EC Treaty and the EEA Agreement are different (see Opinion 1/91 of the ECJ regarding the Draft Agreement between the Community, on the one hand, and the countries of the European Free Trade Association, on the other, relating to the creation of the European Economic Area [1991] ECR I-6079). Thus, the EEA Agreement does not establish a customs union, but a free trade area.

26 The above-mentioned differences between the Community and the EEA will have to be reflected in the application of the principle of exhaustion of trade mark rights. According to Article 8 EEA, the principle of free movement of goods as laid down in Articles 11 to 13 EEA applies only to goods originating in the EEA, while in the Community a product is in free circulation once it has been lawfully placed on the market in a Member State. In general, the latter applies in the context of the EEA only in respect of products originating in the EEA. In the case at hand, the product was manufactured in the United States

and imported into Norway. Accordingly, it is not subject to the principle of the free movement of goods within the EEA.

27 Additionally, the EEA Agreement does not entail a common commercial policy towards third countries (see in particular Article 113 EC). The EFTA States have not transferred their respective treaty-making powers to any kind of supranational organs. They remain free to conclude treaties and agreements with third countries in relation to foreign trade (see Article 5 and 6 of Protocol 28 EEA). Requiring Article 7(1) to be interpreted in the EEA context as obliging the EFTA Member States to apply the principle of Community-wide exhaustion would impose restraints on the EFTA States in their third-country trade relations. Such a result would not be in keeping with the aim of the EEA Agreement, which is to create a fundamentally improved free trade area but no customs union with a uniform foreign trade policy.

28 In light of these considerations, the EFTA Court notes that it is for the EFTA States, i.e. their legislators or courts, to decide whether they wish to introduce or maintain the principle of international exhaustion of rights conferred by a trade mark with regard to goods originating from outside the EEA.

29 This interpretation of Article 7(1) of the Trade Mark Directive in the EEA context is also in line with the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), where the issue is left open for the Member States to regulate.

30 The costs incurred by the Government of Liechtenstein, the Government of Norway, the Government of France, the Federal Government of Germany, the Government of the United Kingdom, the EFTA Surveillance Authority and the EC Commission, which have submitted observations to the Court, are not recoverable. Since these proceedings are, in so far as the parties to the main proceedings are concerned, a step in the proceedings pending before the national court, the decision on costs is a matter for that court.

On those grounds,

THE COURT,

in answer to the question referred to it by Fredrikstad byrett by an order of 16 May 1997, hereby gives the following Advisory Opinion:

Article 7, paragraph 1 of Council Directive 89/104/EEC (Trade Mark Directive) referred to in Annex XVII to the EEA Agreement is, in the EEA context, to be interpreted as leaving it up to the EFTA States to decide whether they wish to introduce or maintain the principle of international exhaustion of rights conferred by a trade mark with regard to goods originating from outside the EEA.

Bjørn Haug Thór Vilhjálmsson Carl Baudenbacher

Delivered in open court in Luxembourg on 3 December 1997.

Per Christiansen
Registrar

Bjørn Haug
President