REPORT FOR THE HEARING

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 of 21 December 1988 to approximate the laws of the Member States relating to trade marks (89/104/EEC).

I. Introduction

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.

II. Legal background

2. The questions submitted by the Norwegian court concern the interpretation of Article 7, paragraph 1 of Council Directive 89/104/EEC[1] (hereinafter referred to as 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:

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[1] OJ No L 40, 11.2.1989, p. 1; OJ No. C 351, 31.12.1985, p. 4.

> *"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 Trade Mark Act[2] contains no explicit rules on exhaustion. However, it is established Norwegian law that international exhaustion applies for trade marks.

III. Facts and Procedure

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 has also claimed 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

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[2] Act no. 4 of 3 March 1961 relating to trade marks (Trade Marks Act); as amended by Act no. 113 of 27 November 1992.

Trade Mark Directive. The plaintiff claims that 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. Fredrikstad byrett has based its decision to request an advisory opinion on the observation that the main issue in the case before the national court is whether the Trade Mark Directive leaves it open for the national legislator to decide whether to stipulate regional (EEA-wide) or international exhaustion of trade mark rights. The Norwegian legislator left the question open as to whether the principle of international exhaustion shall continue to apply under the Trade Mark Directive.

11. The following questions were referred to the EFTA Court:

IV. 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?

V. Written observations

12. Pursuant to Article 20 of the Statute of the EFTA Court and Article 97 of the Rules of Procedure, written observations have been received from:

- the plaintiff, represented by Counsel Bente Holmvang, Advokatfirma Bull & Co. ANS;

- the defendant, represented by Counsel Camillo Mordt, Advokatene i Vægtergården;

- 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 Commission for the European Communities, represented by Berend Jan Drijber, member of its Legal Service, acting as Agent.

1. Mag Instrument Inc.

13. The *plaintiff* refers to provisions of the Norwegian Trade Mark Act,[3] to preparatory works for amendments to Act[4] and to court decisions, all of which apply international exhaustion.

14. The plaintiff states that the Trade Mark Directive is now part of Norwegian law, which is presumed to be in conformity with EEA law.

15. A purely linguistic interpretation of Article 7(1) indicates that the Directive contemplates exhaustion as occurring upon sale/marketing solely in the EC/EEA. This approach is supported by the history[5] and the purpose of the Directive.

16. Furthermore, it gives the best protection to the holders of the rights and allows the market-controlling function to achieve greatest effect. The function of the trademark should also be protected so that it is not only the origin of the product which can be protected by virtue of the trade mark.

17. If individual States are allowed to determine freely whether holders of rights are able to object to imports from third countries, this 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.

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3 See footnote 2.

4 The Norwegian preparatory work for Act no. 113 (Odelstingproposisjon no. 72, 1991-92).

5 OJ No C 351, 31.12.1980, p. 1.

Therefore, the plaintiff submits that the principle of free movement of goods must be the same in all Member States and that the principle must also apply for the EEA.

18. The plaintiff refers to the legal situation in other Member States, which have amended their Trade Mark Acts following the wording of Article 7(1) of the Trade Mark Directive.[6] Subsequent case law[7] has interpreted this provision as being a rule on compulsory regional exhaustion.

19. The plaintiff asserts that the reasoning in the judgments of the ECJ[8] is open to the interpretation that the national courts assume the Trade Mark Directive to be understood as a rule imposing regional exhaustion.

20. The plaintiff suggests answering the questions as follows:

> *"Article 7, paragraph 1 of First Council Directive 89/104/EEC, the Trade Mark Directive, is to be interpreted as conferring a right on the proprietor to prevent imports from a third country outside the EU/EEA, when said import takes place without the consent of the proprietor.*
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> *Article 7, paragraph 1 of First Council Directive 89/104/EEC, the Trade Mark Directive, is to be interpreted as imposing regional exhaustion in such a way that the trade mark right in the countries so bound may neither be limited to national exhaustion nor expanded to encompass international exhaustion."*

2. California Trading Company Norway, Ulsteen

21. The *defendant* refers to Norwegian law and to the Trade Mark Directive. The wording, the preparatory works and the history of the Directive do not seem to provide sufficient evidence to support the proposition that the Directive prohibits international exhaustion.

22. When parallel imports are allowed on a market, this generally leads to a greater supply of trademark goods on the market. Accordingly, the price level will be lowest in market with large supply of goods. Thus, parallel imports open the door to competition between different importers and licensed importers cannot expect higher margins than the market will yield. This situation has a direct impact on consumers. Parallel imports help to stem a centralization of power and give more people access to goods that are the subject of the same trade mark. Any restrictions on the institution of free competition will lead to anti-competition rules.

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6 See the trademark legislation in the Benelux countries and in Germany.

7 BGH v. 14.12.1995 - I ZR 210/93, GRUR 1996, 271.

8 See Case C-352/95 *Phytheron International SA* v *Jean Bourdon SA*, not yet reported.

23. Furthermore, the European countries have advocated the principle of free competition by recognizing the General Agreement on Tariffs and Trade (GATT)[9] and contributing to the World Trade Organization (WTO). It would be contrary to the whole line of thought within the EEA and throughout international trade co-operation to introduce anti-competition rules at this time.

24. A prohibition of parallel imports from countries outside the EEA would constitute a protectionist measure in favour of the internal European market. Such a measure could have secondary effects at the political level.

25. The main arguments against parallel imports[10] concern commercial matters which should be resolved by the manufacturer and the trade mark importer. As to the question of quality of parallel-imported products, the defendant states that in any event the products are the same since they are produced by the same manufacturer. The consumer will be protected by consumer legislation and by other corresponding rules.

26. Furthermore, these arguments against parallel imports are not emphasized in the provision concerning regional exhaustion.

27. The defendant proposes answering the questions as follows:

> *"Article 7 cannot be interpreted in such a manner that it precludes international exhaustion. Accordingly, the individual countries in the EEA must be allowed to decide themselves whether they want to have rules on international or regional exhaustion."*

3. The Government of the Principality of Liechtenstein

28. For the *Liechtenstein Government* the question is whether the principle of exhaustion is valid at the national level (national exhaustion), at the regional level (regional exhaustion) or whether it is of world-wide scope (international exhaustion).

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9 See Introduction to the GATT Agreement.

10 (1) The aspect that an importer which has imported goods free of charge through parallel import gains the advantage of any marketing done by the licensed trademark importer.

(2) The aspect that it is difficult to carry out product control with goods that are the object of parallel imports.

29. Analyzing several judgments of the ECJ[11] concerning Article 30 and 36 EC, the Liechtenstein Government comes to the conclusion that the ECJ's case law, which is reflected in Article 7(1) of the Trade Mark Directive, cannot be interpreted in such a way as to require regional exhaustion from the national legislator. There is neither the negative effect on trade between Member States nor are there other provisions that would prevent a Member State from introducing the principle of international exhaustion. Thus, the provisions of free movement of goods are not applicable in the present case.

30. The main function of a trade mark, *viz.*, to allow the consumer to identify with certainty the origin of the products, does not come into question since the products imported stem 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.[12] This is not called into question when a product is put into circulation by the same undertaking, by a licensee, by a parent company, by a subsidiary of the same group or by an exclusive distributor. Therefore, Member States should not be deprived of the possibility of maintaining or introducing international exhaustion in their national legislation. This principle is fully consistent with the function of the mark as indicator of origin.

31. For the Liechtenstein Government it is obvious that national exhaustion is prohibited under the Trade Mark Directive, but it is unclear whether the Directive also prohibits international exhaustion.

32. Reference is made to commentators[13] arguing that Article 7(1) does not allow Contracting Parties to maintain the principle of international exhaustion and commentators[14] arguing that the provision only lays down a minimum

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11 See Cases 16/74 *Centrafarm* v *Winthrop* [1974] ECR 1183 (hereinafter "*Centrafarm*"); 51/75 *EMI Records* v *CBS United Kingdom Limited* [1975] ECR 811 (hereinafter "*EMI*"); 270/80 *Polydor Limited et al.* v *Harlequin Record Shops et al.* [1982] ECR 329 (hereinafter "*Polydor*"); C-10/89 *CNL-Sucal SA* v *Hag GF AG* [1990] ECR I-3711 (hereinafter "*HAG II*"); C-9/93 *IHT Internationale Heiztechnik* v *Ideal Standard* [1994] ECR I-2789 (hereinafter "*Ideal Standard*").

12 See Opinion of the Advocate General in Case C-337/95 *Christian Dior SA*, not yet reported.

13 See, e.g., Herman Cohen Jehoram, International Exhaustion versus Importation Right: A Murky Area of Intellectual Property Law, GRURInt. 1996, 281; Jesper Rasmussen, The principle of exhaustion of trade mark rights pursuant to Directive 89/104 (and Regulation 40/94) (1995) 4 EIPR, 175; Rolf Sack, Die Erschöpfung von Markenrechten nach Europäischem Recht, RIW 1994, 897; Henning Harte-Bavendamm/Eva Scheller, Die Auswirkungen der Markenrechtsrichtlinie auf die Lehre der internationalen Erschöpfung, WRP 1994, 571; Peter Kunz-Hallstein, perspektiven der Angleichung des nationalen Markenrechts in der EWG, GRURInt. 1992, 81; Rainer Klaka, Erschöpfung und Verwirkung im Licht des Markenrechtsreformgesetzes, GRURInt. 1994, 321.

14 See, e.g., Friedrich-Karl Beier, Gewerblicher Rechtsschutz und freier Warenverkehr im europäischen Binnenmarkt und im Verkehr mit Drittstaaten, GRURInt. 1989, 615; Carsten Thomas Ebenroth, Gewerblicher Rechtsschutz und Herkunftsfunktion der Marke (1993) 27; Reinhard Schanda, Parallelimport und Herkunftsfunktion der Marke, ÖBl. 1996, 174; Nicolas Shea, Does the First Trade Mark Directive Allow International Exhaustion of Rights? (1995) 10 EIPR 463; Ulrich Loewenheim; Nationale und Internationale Erschöpfung von Schutzrechten im

requirement of EEA-wide exhaustion, while permitting the Contracting Parties to maintain or establish the principle of international exhaustion as a national principle.

33. It follows from the wording and the aim[15] of the Trade Mark Directive that each EEA Member can decide whether it wants to allow parallel imports from third countries for the benefit of its consumers. Even the Commission proposed possibilities of a future introduction of international exhaustion through rulings of national courts.[16]

34. Contrary to the Trade Mark Directive, Article 9(2) of Council Directive 92/100/EEC on rental right and lending right and on certain rights related to copyright in the field of intellectual property contains an explicit exclusion of the principle of international exhaustion.

35. Furthermore, the Liechtenstein Government refers to the different ways Article 7(1) has been implemented in the EC Member States[17] and in Liechtenstein.[18] According to the Liechtenstein Government, the principle of international exhaustion is in the interest of free trade and competition and thus in the interest of consumers.[19]

36. Comparing the purpose and the scope of the EC Treaty and the EEA Agreement,[20] the Liechtenstein Government notes that the EEA Agreement does not establish a customs union, but only a free trade area, although it goes much beyond the free-trade agreements previously concluded by the EC and the EFTA Countries. Unlike the EC Treaty, the EEA Agreement does not include provisions on a common commercial policy towards third countries.[21] The EEA

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wandel der Zeiten, GRURInt. 1996, 312; Markenrechtsentwicklung und Parallelimport, ÖBl 1994, 195.

15 See 7th recital of the Trade Mark Directive.

16 See Nicholas Shea, Does the First Trade Mark Directive Allow International Exhaustion of Rights? [1995] 10 EIPR 464.

17 The German legislators considered the maintenance of the principle of international exhaustion to be incompatible with EC law (see footnotes 10 and 25). The Austrian legislators left it up to the courts to decide whether the established principle of international exhaustion may be maintained in Austrian trade mark law (see pending Case C-355/96 *Silhouette International Schmied Gesellschaft mbH & Co KG* v *Hartlauer Handelsgesellschaft mbH*.)

18 See Article 13(4) and (5) of the Liechtenstein Trade Mark Act of 12 December 1996 (Liechtenstein Law Gazette 1997 no. 60).

19 See the comments made by the Minister for Economy during the debate, Landtagsprotokoll of 12 December 1996, 2791.

20 See Opinion 1/91 Opinion 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.

21 See in particular Article 113 EC.

is "a fundamentally improved free trade area"[22] and the limitations of the objectives of the EEA is mirrored in the scope of the EEA provisions on the free movement of goods. According to Article 8(2) EEA, Article 11 et seq. EEA apply only to products originating in the EEA. Imported goods from outside the EEA are therefore not subject to the free movement of goods within the EEA. This means that Article 7 of the Trade Mark Directive cannot be applied under the circumstances of the case.

37. The EFTA States remain free to conclude treaties and agreements with third countries in relation to trade or IPRs.[23]

38. Even in the Community's legal order there is no legislation regarding the principle of international exhaustion. Article 100A EC, the legal basis of the Trade Mark Directive, does not suffice for such legislation. In the TRIPs Agreement[24] the issue remains open for the Members to be regulated.

39. The Government of the Principality of Liechtenstein suggests answering the questions as follows:

> *"Article 7(1) of Council Directive 89/104/EEC is not relevant in the determination of whether a trade mark proprietor is entitled to rely on a national right in order to prevent a product, which has been produced and placed on the market by the proprietor or with his consent in a country outside the EEA, from being imported without his consent.*
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> *Article 7(1) of the Directive has to be understood to the effect that exhaustion of a trade mark right may not be limited to national exhaustion, but Article 7(1) is not to be understood to the effect that it prohibits EFTA/EEA States from introducing or maintaining the principle of international exhaustion in their national laws."*

4. The Government of the Kingdom of Norway

40. The *Norwegian Government* argues that several EC countries have understood the Trade Mark Directive as not excluding international exhaustion. This in itself is an argument for such an interpretation of the Directive.

41. Furthermore, the different functions of the protection of patents, designs, layout designs for integrated circuits and plant breeders' rights on the one hand, and the protection of trade marks on the other hand, are examined. In the first

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22 See Sven Norberg, The European Economic Area: The Legal Answers to a Dynamic and Homogeneous EEA (1992) 3 Eur.Bus.L.Rev. 195.

23 See Article 5 and 6 of Protocol 28 EEA.

24 In Opinion 1/94 of 15 November 1994, the ECJ held that the Community and the Member States were jointly competent.

case, the purpose of the protection is to stimulate technical development by awarding the inventor or plant breeder a sole right of commercial exploitation of the invention or plant variety during a restricted period of time. Rules of exhaustion that are beneficial to the holder of the right may be part of this. For trade marks, the purpose of protection is basically to ensure the identification of goods and services and their commercial origin.

42. A more limited exhaustion than international exhaustion will allow for price discrimination, a stronger segmentation of the markets and reduced price competition. The efficiency of the economy is reduced.

43. The Norwegian Government submits that the Trade Mark Directive does not preclude national law from prescribing international exhaustion.

5. The French Government

44. According to the *French Government*, the request could be inadmissible because it is unclear whether or not the goods in question should be deemed to be products originating in Contracting Parties within the meaning of Article 8, paragraph 2 EEA, and Protocol 4 to the EEA Agreement.

45. The French Government submits that the provisions of the Trade Mark Directive should be interpreted within the EEA in the light of their interpretation within the EC. When the Council of the European Communities adopted the First Trade Mark Directive, it deliberately chose to approve Community-wide, not international exhaustion. This follows from the unambiguous wording of Article 7(1) of the Trade Mark Directive.

46. The legislative history[25] of the Trade Mark Directive indicates that the Council deliberately ruled out international exhaustion.

47. It emerges from the ECJ`s case law[26] that the objectives of uniform protection[27] of trade marks and of the unification of national markets into a single market having the characteristics of a domestic market can best be attained by Community-wide exhaustion precluding international exhaustion. Articles 30 and 36 EC concern solely the free movement of goods between Member States. Therefore, the trade mark right may be exhausted only when a cross-border movement inside the Community is effected. The ECJ has indicated that

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25 See Article 6(1) of the Proposal for a First Council Directive to approximate the laws of the Member States relating to trade marks, in which international exhaustion was intended (OJ No C 351, 31.12.1980, p. 1) and the modified proposal of the Commission following the proposal of the European Parliament aimed at abandoning international exhaustion in COM(85) 793.

26 Joined Cases C-427/93, C-429/93 and C-436/93 *Bristol-Myers Squibb and Others* v *Paranova* [1996] ECR I-3547; *Polydor*, footnote 11.

27 See 9th recital of the Trade Mark Directive.

international exhaustion of trade mark rights was not prescribed by any provision in the EEC.[28]

48. A combination of international exhaustion with Community-wide exhaustion would lead to a partitioning of the internal market. If a product was marketed without the consent of the trade mark rights holder in a Member State which allowed international exhaustion, that product could then be exported into another Member State which recognized only Community-wide exhaustion. The question would then arise as to whether the trade mark holder in the second Member State could bring proceedings against the parallel importer to prohibit the sale of products bearing the trade mark.

49. Community-wide exhaustion, to the exclusion of international exhaustion, would best contribute to the strengthening of the competitiveness of Community industry in accordance with Article 3 EC. Community-wide exhaustion has been retained in legislative texts concerning various intellectual property rights.[29]

50. The French Government submits that Article 7(1) of the Act referred to in Annex XVII, point 4 of the EEA Agreement should be interpreted in the light of Articles 30 and 36 EC as interpreted by the ECJ.

51. This conclusion is also consistent with the general purposes of the EEA, which are deeply reminiscent of those of the EC. Only EEA-wide exhaustion of trade mark rights to the exclusion of international exhaustion is compatible with the objective of establishing a dynamic and homogeneous European Economic Area, based on common rules and equal conditions of competition. If international exhaustion of intellectual property rights were allowed to prevail within some EEA Member States, while the EC recognized Community-wide exhaustion, it would be impossible to guarantee equal conditions of competition within a homogeneous EEA for trade mark holders and other IP-proprietors. Furthermore, it is a decisive means to the achievement of the common objective of encouraging European industry to become more competitive at the international level.

52. The French Government proposes that the questions should be answered as follows:

> *"Article 7, paragraph 1 of the Act referred to in point 4 of Annex XVII to the EEA Agreement (First Council Directive of 21 December 1988 to approximate the laws of the Member States relating to trade marks (89/104/EEC)) is to be*

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28 See *EMI*, footnote 11.

29 See Council Regulation of 20 December 1993 on the Community trade mark (OJ No L 11, 14.1.1994); Council Regulation of 27 July 1994 on Community plant variety rights (OJ No L 227, 1.9.1994); Council Directive of 14 May 1991 on the legal protection of computer programs (OJ No L 122, 17.5.1991); Council Directive of 19 November 1992 on rental, lending rights and certain related rights (OJ No L 346, 27.11.1992)

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."

6. The German Federal Government

53. For the *German Federal Government* it follows from the wording of Article 7(1) of the Trade Mark Directive that the right of the proprietor to forbid third parties to use the trade mark is not exhausted if the goods have been put on the market under this trade mark outside the Community.

54. This view is supported by the system of the Directive. As an exception to the principle in Article 5, Article 7(1) must be interpreted restrictively.

55. Furthermore, the origin of the Trade Mark Directive implies that Article 7(1) is to be understood as a binding order to apply the principle of Community-wide and EEA-wide exhaustion of the trade mark right.[30]

56. Concerning the second question, the German Government states that the provision of national exhaustion by the legislator of a Member State would be contrary to the wording, the system and the purpose of Article 7(1) of the Trade Mark Directive. This view is confirmed by the relevant case law of the ECJ.[31]

57. The principle of international exhaustion would not be contrary to the cited case law of the ECJ, because parallel imports between the Member States of the EC and the EEA would be admissible. In addition, the principle of international exhaustion would also allow parallel imports from such countries that belong neither to the Community nor to the EEA.

58. If one Member State continued to apply or introduced the principle of international exhaustion, while others provided for Community-wide (EEA-wide) exhaustion in their legal system, the functioning of the internal market would be impaired. It would be possible to import goods marketed outside the Community or the EEA into a Member State that, pursuant to the principle of international exhaustion, would regard the trade mark right of the proprietor as exhausted. Nevertheless, the proprietor could prevent the further sale of such goods in Member States that only applied Community-wide exhaustion of trade marks. As a consequence, differing rules of exhaustion within the Community and the EEA would result in new trade barriers and protected markets. Therefore only a uniform interpretation of Article 7(1) corresponds to the objective of the

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30 See footnote 25 and in addition COM (80) 635 final.

31 See *Centrafarm*, *HAG II*, *Ideal Standard*, footnote 11; and *Paranova*, footnote 26.

Trade Mark Directive to harmonize the protection of registered trade marks under the laws of all Member States. The rule on the exhaustion of trade marks belongs to those provisions of national law which most directly affect the functioning of the internal market.

59. The German Federal Government is of the opinion that protected markets could also be prevented if all Member States introduced the principle of international exhaustion.

60. When the Trade Mark Directive was translated into German law, Community- and EEA-wide exhaustion were explicitly provided for in the proposal of the Trade Mark Act.[32] The German Federal Supreme Court also ruled that the principle of international exhaustion of trade mark rights must no longer be applied since the entry into force of the Trade Mark Directive.[33]

61. The German Federal Government therefore suggests answering the questions as follows:

> *"Article 7 paragraph 1 of the Trade Mark Directive is 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."*

7. The Government of the United Kingdom

62. The *Government of the United Kingdom* refers to its observations submitted in the *Silhouette* case[34] and argues that in order to appreciate properly the effect of Article 7(1), it is necessary first to consider the scope of rights given by a trade mark under Article 5 of the Trade Mark Directive. The right to oppose the import of goods bearing the trade mark is a type of "use" in the course of trade which the proprietor is entitled to prevent under Article 5(1) and 5(2) of the Trade Mark Directive.

63. Furthermore, the proper interpretation of Article 7(1), as a matter of construction of the language, intention and legislative history, is that it provides a specific and narrow exception to the trade mark rights granted by Article 5 which exception is limited to goods marked under the trade mark with the trade mark proprietor's consent within the EEA. The legislator expressly considered and rejected the possibility of providing that there should be exhaustion of rights wherever the goods were first marketed.

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32 See statement of reasons for the Draft Act by the Federal Government, publications by the Bundestag 12/6581 of 14 January 1984, p. 81.

33 BGH v. 14.12.1995 - I ZR 210/93, GRUR 1996, 271.

34 See footnote 17.

64. The Government of the United Kingdom submits that the questions should be answered as follows:

> *"Article 5 of First Council Directive 89/104/EEC of 21 December 1988 to approximate the laws of the Member States relating to trade marks […] entitles the proprietor of a registered trade mark to prevent all third parties not having his consent from importing into an EEA state goods under that mark; Article 7(1) of the Directive derogates from that right only to the extent that the goods have been put on the market in the EEA under that mark by the proprietor or with his consent."*
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> *Articles 5 and 7 of the Directive when considered together prevent domestic legislation from providing for international exhaustion of the Directive and thus domestic law cannot properly be limited to national exhaustion nor provide for a general principle of international exhaustion."*

8. The EFTA Surveillance Authority

65. *The EFTA Surveillance Authority* submits that the concept of exhaustion of trade mark rights is intended to remove an obstacle to the free movement of goods resulting from a proprietor exercising his rights to prevent parallel imports.[35]

66. Reference is made to the Norwegian Trade Marks Act[36] and to Articles 5 and 7 of the Trade Mark Directive.

67. Contrary to the EC Treaty, the EEA Agreement does not establish a customs union. Additionally, the EEA-Agreement does not entail a common commercial policy towards third countries and the principle of free movement of goods, as laid down in Articles 11 - 13 EEA, applies according to Article 8 EEA 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.

68. These differences between the Community and the EEA will also have to be reflected in the application of the principle of exhaustion of trade mark rights. With regard to goods imported into an EFTA State from third countries, the application of the principle of exhaustion would not at all contribute to the attainment of the objective of Article 7(1) of the Trade Mark Directive to ensure the free movement of goods. Requiring Article 7(1) to be applied to such trade would impose restraints on the EFTA States in their third country trade relations.

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35 In Community law this principle was established by the ECJ (see Cases 78/70 *Deutsche Grammophon* v *Metro* [1971] ECR 487, and *Centrafarm*, footnote 11; it is now codified in the Trade Mark Directive and extended to encompass the EEA.

36 See footnote 2.

69. If a product that was manufactured in the United States is imported into Norway, this product would not be subject to the principle of the free movement of goods within the EEA. Therefore, Article 7(1) of the Directive is not relevant in determining whether or not the trade mark holder can prevent the product from being imported into Norway.

70. The EFTA Surveillance Authority proposes answering the questions as follows:

> *"Article 7(1) of the Act referred to in point 4 of Annex XVII to the EEA Agreement (First Council Directive 89/104/EEC of 21 December 1988 to approximate the laws of the Member States relating to trade marks) is not relevant in the determination of whether or not the proprietor of a trade mark can prevent a product originating in an non-EEA country from being imported under that sign from that country into an EFTA/EEA State."*

9. Commission for the European Communities

71. The *Commission for the European Communities* is of the opinion that there should be a single legal regime on exhaustion of rights. Otherwise, countries applying international exhaustion will serve as a loophole for imports from outside the EEA into States providing for Community exhaustion. The consequence would be that a holder of rights in the latter State can rely on Article 36 EC to stop this intra-Community or intra-EEA import. New barriers to the free movement of goods will occur.

72. The Commission refers to the legal situation in the Member States after the Trade Mark Directive came into force[37] and to the academic debate.[38]

73. Furthermore, the Commission states that the language,[39] the legislative history[40] and the purpose[41] of the Trade Mark Directive show that it prohibits

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37 See footnote 7 and, for the Netherlands, see the injunction order of the President of the District Court of The Hague in Re *Novell Inc*. v *America Direct BV, Kort geding* 1995, 591. So far only Sweden has maintained international exhaustion in the field of trade marks.

38 See footnotes 13 and 16; Carboni, Cases Past the Post on Trade Mark Exhaustion: an English Perspective, EIPR 1997, 198; Pickrahn, Die Bekämpfung von Parallelimporten nach dem neuen Markengesetz, GRUR 1996, 383; Eeckman, Sociaal Economische Wetgeving, 1995, 248; Wellink-Volmer, Intellectuele Eigendom en Reclamerecht, 1995, 5; Mok, Bijblad Industriële Eigendom, 1997, 39.

39 See Articles 5 and 7 of the Trade Mark Directive.

40 See footnote 25 and Article 6 of the Modified Proposal (OJ No. C 351, 31.12.1985, p. 4). A similar change was made by the Commission to its proposal for a Regulation on a Community Trade mark (OJ No. C 230, 31.8.1984, p. 1). In an explanatory memorandum to this proposal the Commission added that "the restriction to Community-wide exhaustion, however, does not prevent national courts from extending this principle in cases of a special nature, in particular where, even in the absence of a formal agreement, reciprocity is guaranteed."

EEA Contracting Parties from maintaining or introducing the principle of international exhaustion at the national level. The legislators specifically considered and rejected the possibility of providing for exhaustion of rights wherever the goods were first marketed.

74. The Commission refers also to Article 5 of the Trade Mark Directive since Article 7(1) constitutes an exception to the scope of rights given by a trade mark under the Directive.

75. The Commission considers that there are two possible legal arguments in favour of international exhaustion. Since the Directive is based on Article 100A EC alone, it could only apply to intra-community (or intra-EEA) trade. Had it been the legislator's intention to provide for total harmonization with respect to imports from third countries, Article 113 EC would have to have been an additional basis. Furthermore, the system of international exhaustion would be more in the spirit of the Agreements concluded following the Uruguay Round.

76. Both arguments are, in the view of the Commission, to be rejected[42].

77. The Commission proposes answering the questions as follows:

> *"Article 7, paragraph 1, of Council Directive 89/104 must be understood as conferring a right on the proprietor of a trademark to prevent a third party from importing from a country outside the EEA goods under the registered sign, even if these goods have been put on the market outside the EEA by the proprietor himself or with his consent."*

Carl Baudenbacher
Judge Rapporteur

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41 See first, third and ninth recital of the Trade Mark Directive.

42 Article 100A EC is a sufficient legal basis for a directive prescribing Community exhaustion. Article 113 EC is not required as an additional legal basis. The clear intention of Article 6 TRIPs was to have as neutral a provision as possible. Furthermore, Community exhaustion is not to be considered as an "advantage" within the meaning of the "most favoured nation clause" embodied in Article 4 TRIPs.