



JUDGMENT OF THE COURT

8 July 2008*

(Exhaustion of trade mark rights)

In Joined Cases E-9/07 and E-10/07,

REQUESTS 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 Follo tingrett (Follo District Court) and Oslo tingrett (Oslo District Court), Norway, in cases pending before those courts between

L'Oréal Norge AS (Case E-9/07 and Case E-10/07);

L'Oréal SA (Case E-10/07)

and

Per Aarskog AS (Case E-9/07);

Nille AS (Case E-9/07);

Smart Club AS (Case E-10/07)

concerning the interpretation of the First Council Directive of 21 December 1988 to approximate the laws of the Member States relating to trade marks (89/104/EEC),

* Language of the Request: Norwegian.

THE COURT,

composed of: Thorgeir Örlygsson, Acting President, Henrik Bull (Judge-Rapporteur) and Martin Ospelt (ad hoc), Judges,

Registrar: Skúli Magnússon,

having considered the written observations submitted on behalf of:

- the Plaintiffs, represented by Toril Melander Stene, Attorney-at-law, Oslo;
- the Defendants, represented by Kjetil Vågen, Attorney at law, Oslo, and Kristin C. Slørdahl, Attorney at law, Oslo, respectively;
- the Government of the Kingdom of Norway, represented by Siri Veseth, Adviser, Ministry of Foreign Affairs, and Fanny Platou Amble, Advocate, Office of the Attorney General (Civil Affairs), acting as Agents;
- the Government of Iceland, represented by Sesselja Sigurðardóttir, First Secretary and Legal Officer, Ministry for Foreign Affairs, acting as Agent;
- the Government of the Principality of Liechtenstein, represented by Sabine Tömördy, Deputy Director, and Thomas Bischof, Legal Officer, EEA Coordination Unit, acting as Agents;
- the EFTA Surveillance Authority, represented by Per Andreas Bjørgan, Deputy Director, and Ida Hauger, National Expert, acting as Agents; and
- the Commission of the European Communities, represented by Hannes Krämer, member of its Legal Service, acting as Agent,

having regard to the Report for the Hearing,

having heard oral argument of the Plaintiffs, represented by Toril Melander Stene, the Defendants, represented by Kjetil Vågen and Kristin C. Slørdahl, respectively, the Government of the Kingdom of Norway, represented by Siri Veseth, the Government of Iceland, represented by Sesselja Sigurðardóttir, the EFTA Surveillance Authority, represented by Ida Hauger, and the Commission of the European Communities, represented by Hannes Krämer, at the hearing on 14 May 2008,

gives the following

Judgment

I Facts and procedure

- 1 The case concerns the question of whether it is in conformity with EEA law to maintain a principle of international exhaustion of trade mark rights.
- 2 The Plaintiffs, L'Oréal SA and L'Oréal Norge AS, are the parent company and a wholly-owned subsidiary in the L'Oréal Group.
- 3 The Defendants in Case E-9/07, Per Aarskog AS and Nille AS, are sister companies within a group where Nille Holding AS is the parent company. Per Aarskog AS is a wholesale company and provides for import and supply of goods to Nille retail stores in Norway. The Defendant in Case E-10/07, Smart Club AS, is a wholesale and retail company in the CG Holding Group. There are 6 Smart Club department stores in Norway. The Court will refer to the Defendants in Case E-9/07 and the Defendant in Case E-10/07 jointly as "the Defendants".
- 4 The REDKEN trade mark belongs to the companies in the L'Oréal Group. REDKEN is registered as a word trade mark for the whole of class 3 and products marked REDKEN have been sold in Norway since 1980.
- 5 The Defendants have carried out parallel imports by importing REDKEN products to Norway from the USA via third parties. The imports have been carried out without consent from the trade mark proprietor. The REDKEN products in question have been produced, put on the market and marketed in the USA upon consent from the trade mark proprietor.
- 6 With the plea that the imports infringe their exclusive trade mark rights, the Plaintiffs filed law suits before Follo tingrett (Case E-9/07) and Oslo tingrett (Case E-10/07) in January 2007. In both cases, the Plaintiffs are seeking an order that the Defendants be prohibited from importing, offering and putting on the market products marked REDKEN which have not been put on the market within the EEA by L'Oréal or with the consent of L'Oréal. The Plaintiffs also claim compensation for the alleged breach of their trade mark rights.
- 7 The Plaintiffs claim that EEA-wide exhaustion must apply in Norwegian trade mark law and, as the products have not been put on the market within the EEA by L'Oréal or with L'Oréal's consent, that the trade mark rights are not exhausted.
- 8 The Defendants claim that the import and resale of the REDKEN products is neither contrary to Section 4 of the Norwegian Trade Mark Act nor contrary to Article 7(1) of Council Directive 89/104/EEC (hereinafter "the Trade Mark

Directive” or “the Directive”). The Defendants state that within the context of EEA law, Article 7(1) does not prohibit international exhaustion. Consequently, as the products had been put on the market in the USA by the trade mark proprietor or with his consent, the trade mark rights are exhausted according to the principle of international exhaustion as laid down in Norwegian trade mark law both before and after the implementation of the Trade Mark Directive.

9 By a letter dated 24 October 2007, registered at the Court on 31 October 2007, Follo tingrett made a request for an Advisory Opinion on the following two questions, in Case E-9/07:

1. *Is Article 7(1) of Council Directive 89/104/EEC to be understood to the effect that a trade mark proprietor has the right to prevent imports from third countries outside the EEA when such imports take place without the consent of the trade mark proprietor?*
2. *Is Article 7(1) of Council Directive 89/104/EEC to be understood to the effect that international exhaustion is permitted?*

10 By a letter dated 26 November 2007, registered at the Court on 29 November 2007, Oslo tingrett made a request for an Advisory Opinion on the same two questions, in Case E-10/07.

11 By a decision of 10 December 2007, the Court, pursuant to Article 39 of the Rules of Procedure and after having received observations from the parties, joined the two cases for the purposes of the written and oral procedures.

II Legal background

National Law

12 In Norway, the basic statutory provisions concerning trade marks are set forth in *lov av 3. mars 1961 nr. 4 om varemerker* (the Trade Mark Act of 3 March 1961 No 4), as amended *inter alia* by Act of 27 November 1992 No 113. The Trade Mark Act contains no rules dealing directly with exhaustion of trade mark rights, but traditionally it has been construed to entail international exhaustion.

13 When the Trade Mark Directive was implemented into the Norwegian internal legal order in connection with the adherence to the EEA Agreement, the lack of statutory provisions concerning exhaustion of rights was commented on in the government bill, Ot.prp. No 72 (1991–92) p. 55, in the following manner:

The Trade Mark Act contains no explicit rules on exhaustion. However, it is established Norwegian law that international exhaustion applies for trade marks.

...

Since international exhaustion is the approach which creates the greatest price competition on the Norwegian market and is, therefore, best for Norwegian consumers, the Ministry is of the view that there should be no aim to switch over to EEA regional exhaustion until the issue is elucidated in more detail in further consultation or by the EFTA Court or the ECJ.

EEA Law

14 Article 1(1) EEA reads as follows:

1. The aim of this Agreement of association is to promote a continuous and balanced strengthening of trade and economic relations between the Contracting Parties with equal conditions of competition, and the respect of the same rules, with a view to creating a homogeneous European Economic Area, hereinafter referred to as the EEA.

15 Article 65(2) EEA reads as follows:

Protocol 28 and Annex XVII contain specific provisions and arrangements concerning intellectual, industrial and commercial property, which, unless otherwise specified, shall apply to all products and services.

16 The obligations on the Contracting Parties with regard to principles of exhaustion of intellectual property rights, such as trade mark rights, are set forth in Article 2(1) of Protocol 28 EEA on Intellectual Property (hereinafter "Protocol 28"), which reads as follows:

1. 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 meaning established in the relevant rulings of the Court of Justice of the European Communities given prior to the signature of the Agreement.

- 17 The Trade Mark Directive is referred to at point 4 of Annex XVII to the EEA Agreement, on Intellectual Property (hereinafter “Annex XVII”). Pursuant to adaptation c in point 4 of Annex XVII, Article 7(1) of the Directive shall, for the purposes of the EEA Agreement, 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.

- 18 Article 3(2) of the Agreement between the EFTA States on the Establishment of a Surveillance Authority and a Court of Justice (hereinafter “SCA”) reads as follows:

2. In the interpretation and application of the EEA Agreement and this Agreement, the EFTA Surveillance Authority and the EFTA Court shall pay due account to the principles laid down by the relevant rulings by the Court of Justice of the European Communities given after the date of signature of the EEA Agreement and which concern the interpretation of that Agreement or of such rules of the Treaty establishing the European Economic Community and the Treaty establishing the European Coal and Steel Community in so far as they are identical in substance to the provisions of the EEA Agreement or to the provisions of Protocols 1 to 4 and the provisions of the acts corresponding to those listed in Annexes I and II to the present Agreement.

- 19 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.

III Findings of the Court

- 20 The national courts have referred two questions to the Court which both in essence concern whether Article 7(1) of the Trade Mark Directive is to be understood to the effect that it precludes international exhaustion of rights conferred by a trade mark with regard to goods originating from outside the EEA. The questions will therefore be dealt with together.
- 21 The questions from the national courts were submitted in light of the Advisory Opinion of the EFTA Court in Case E-2/97 *Mag Instrument Inc. v California Trading Company Norway* [1997] EFTA Ct. Rep. 129 (hereinafter “*Maglite*”) and the subsequent judgment of the Court of Justice of the European Communities (hereinafter the “ECJ”) in Case C-355/96 *Silhouette International Schmied v Hartlauer Handelsgesellschaft* [1998] ECR I-4799 (hereinafter “*Silhouette*”). As

explained below, the Court and the ECJ in those cases dealt with essentially the same legal issue but came to different conclusions.

- 22 In light of the Defendants' submissions, which also address the issue of whether Article 7(1) of the Trade Mark Directive can be directly applicable and take precedence over a national rule that fails to transpose the relevant EEA rule correctly into national law, the Court recalls, as a preliminary remark, that the Directive could not in any case have direct effect and primacy pursuant to EEA law, cf. Case E-1/07 *Criminal proceedings against A* [2007] EFTA Ct. Rep. 246, at paragraphs 40–41 and 43. Nonetheless, the national courts are bound to interpret national law as far as possible in conformity with EEA law. Consequently, they must apply the interpretative methods recognised by national law as far as possible in order to achieve the result sought by the relevant EEA rule, cf. Case E-1/07 *Criminal proceedings against A*, at paragraph 39.
- 23 In relation to the substantive issue of exhaustion of trade mark rights, the Plaintiffs argue that it follows from *Silhouette* that Article 7(1) of the Directive must be interpreted to introduce, also in the context of EEA law, mandatory EEA-wide exhaustion of trade mark rights regardless of the origin of the goods in question. Thus, the Directive does not leave the EEA States with the option of introducing or maintaining international exhaustion. This submission is in essence supported by the Commission of the European Communities. The Defendants, supported by the Government of Iceland, the Government of the Principality of Liechtenstein and the Government of the Kingdom of Norway, refer to the conclusion in *Maglite* that Article 7(1) of the Trade Mark Directive leaves it open for the EFTA States to maintain international exhaustion in relation to goods originating from outside the EEA. In their view, the EFTA Court should uphold this interpretation of the Trade Mark Directive in the context of EEA law. The EFTA Surveillance Authority has also argued in favour of this conclusion, while recognising that there are arguments to the contrary.
- 24 The Court notes that prior to the Advisory Opinion in *Maglite*, the interpretation of Article 7(1) of the Trade Mark Directive was disputed in legal circles. There were weighty arguments in favour of interpreting the provision as prohibiting only national exhaustion, while leaving open the choice between EEA-wide exhaustion and international exhaustion. Indeed, as is apparent from the case file, in the aftermath of the rulings by the EFTA Court and the ECJ which are at the heart of the present case, several EU Member States sought an amendment to the Directive expressly allowing international exhaustion. Those States basically argued along the same lines as the EFTA Court had done in *Maglite* with regard to the benefits of international exhaustion. However, there were also weighty arguments in favour of interpreting the provision as introducing mandatory EEA-wide exhaustion with no option of international exhaustion.

- 25 After the EFTA Court opted for an interpretation allowing international exhaustion in *Maglite*, the ECJ opted for mandatory EEA-wide exhaustion in *Silhouette* and then upheld that interpretation in Case C-173/98 *Sebago and Maison Dubois* [1999] ECR I-4103 (hereinafter “*Sebago*”), which concerned goods originating from outside the EEA.
- 26 The divergence between *Maglite* on the one hand and *Silhouette* and *Sebago* on the other is limited to exhaustion of trade mark rights in relation to goods originating from outside the EEA. In allowing international exhaustion for goods originating from outside the EEA, the Court attached importance to the EEA Agreement not establishing a customs union with a common commercial policy, cf. *Maglite*, at paragraph 27. The EFTA States remain free to conclude treaties and agreements with third countries in relation to foreign trade. In light of those considerations, the Court found that it should be for the legislators and courts of the EFTA States to decide whether they wish to introduce or maintain a principle of international exhaustion of rights conferred by a trade mark with regard to goods originating from outside the EEA, cf. *Maglite*, at paragraph 28.
- 27 The main objective of the EEA Agreement is to create a homogeneous EEA, cf. *inter alia* Article 1(1) EEA and the fourth and the fifteenth recitals of the Preamble to the Agreement. Homogeneous interpretation and application of common rules is essential for the effective functioning of the internal market within the EEA. The principle of homogeneity therefore leads to a presumption that provisions framed in the same way in the EEA Agreement and EC law are to be construed in the same way. However, differences in scope and purpose may under specific circumstances lead to a difference in interpretation between EEA law and EC law (see for comparison Case E-2/06 *EFTA Surveillance Authority v Norway* [2007] EFTA Ct. Rep. 163, at paragraph 59).
- 28 The institutional system of the European Economic Area foresees two courts at the international level, the EFTA Court and the ECJ, interpreting the common rules. It is an inherent consequence of such a system that from time to time the two courts may come to different conclusions in their interpretation of the rules. The EFTA States have sought to minimise this risk by establishing, in Article 3(2) SCA, an obligation for the EFTA Court to “pay due account to the principles laid down by the relevant rulings” of the ECJ given after the date of signature of the EEA Agreement. In its interpretation of EEA rules, the Court has consistently taken into account the relevant rulings of the ECJ given after the said date. Furthermore, Article 2(1) of Protocol 28, which provides for the harmonisation of the rules on exhaustion of intellectual property rights on the basis of the principles laid down in case law of the ECJ existing at the time of signature of the EEA Agreement, emphasises that this is “[w]ithout prejudice to future developments of case law”.

- 29 Neither Article 3(2) SCA nor Article 2(1) of Protocol 28 explicitly addresses the situation where the EFTA Court has ruled on an issue first and the ECJ has subsequently come to a different conclusion. However, the consequences for the internal market within the EEA are the same in that situation as in a situation where the ECJ has ruled on an issue first and the EFTA Court subsequently were to come to a different conclusion. This calls for an interpretation of EEA law in line with new case law of the ECJ regardless of whether the EFTA Court has previously ruled on the question.
- 30 As mentioned in paragraph 25 above, the ECJ came to the conclusion in *Silhouette* and *Sebago* that Article 7(1) of the Directive entails mandatory EEA-wide exhaustion of trade mark rights. Whereas the EFTA Court attached particular importance to considerations relating to free trade and competition in the interest of consumers, cf. *Maglite*, at paragraph 19, the ECJ emphasised the overall objective of facilitating the free movement of goods and services and in that regard the Directive's objective of ensuring the same protection for registered trade marks within the whole of the internal market, cf. *Silhouette* at paragraph 24. Both sets of arguments are equally valid in a Community law context and an EEA law context.
- 31 Next, it needs to be considered whether differences in scope and purpose between Community law and EEA law nevertheless constitute compelling grounds for divergent interpretations of Article 7(1) of the Directive in EEA law and EC law.
- 32 With regard to the arguments concerning trade relations with third countries, which are specific to the EEA, the Government of the Kingdom of Norway and the Government of Iceland asserted during the oral hearing that it is unusual for their agreements with third countries to include clauses concerning exhaustion of intellectual property rights. In their view, it is therefore more important in practice to be able to decide on the exhaustion regime vis-à-vis third countries purely as a matter of domestic law. In this regard, the Court notes that the present case does not concern a situation in which the EFTA State in question has entered into an agreement with a third State on exhaustion of trade mark rights. In effect, the question to be answered in the present case is whether the Trade Mark Directive should be interpreted as not restricting the EFTA States in their freedom to provide for international exhaustion of trade mark rights, as a unilateral measure, in relation to goods originating from outside the EEA.
- 33 According to Article 65(2) EEA, the provisions contained in Protocol 28 and Annex XVII "shall apply to all products", "unless otherwise specified". Article 65(2) does not make a reservation against rules providing for mandatory EEA-wide exhaustion of rights relating to goods originating from outside the EEA. Nor does Protocol 28 or Annex XVII make any such reservation. On the contrary,

according to Article 2(1), first sentence, of Protocol 28, “the Contracting Parties shall provide for such exhaustion of intellectual property rights as laid down in Community law”. This allows for the incorporation into Annex XVII of legal acts providing for mandatory EEA-wide exhaustion of rights, regardless of the origin of the goods to which the rights relate.

- 34 This interpretation of Article 65(2) EEA and Article 2(1) of Protocol 28 is also reflected in the fact that directives with a clear wording to this effect have been incorporated into the Agreement. Article 4(2) of Directive 2001/29/EC on the harmonisation of certain aspects of copyright and related rights in the information society provides that the “distribution right shall not be exhausted within the Community in respect of the original or copies of the work, except where the first sale or other transfer of ownership in the Community of that object is made by the rightholder or with his consent”. The relevant EEA Joint Committee Decision No 110/2004 of 9 July 2004 does not contain any specific EEA adaptations of Article 4(2). Accordingly, point 8 of Protocol 1 EEA on Horizontal Adaptations applies, according to which “the Community” shall be read as a reference to the territories of the Contracting Parties as defined in Article 126 EEA. The same applies to Article 9(2) of Directive 2006/115/EC on rental right and lending right and on certain rights related to copyright in the field of intellectual property, cf. EEA Joint Committee Decision No 56/2007 of 8 June 2007.
- 35 Furthermore, Article 2(1) of Protocol 28 does not exclude mandatory EEA-wide exhaustion of trade mark rights as one of the possible “future developments” in the case law of the ECJ which, implicitly, would be relevant also for EEA law. In this context, it is noted that the conclusion, in *Maglite*, at paragraph 22, that Article 2 of Protocol 28 only provided for EEA-wide exhaustion as a minimum requirement was built on the premise that “to date” there was no case law of the ECJ which ruled out international exhaustion of rights.
- 36 Thus, it is clear that the EEA Agreement foresees the possibility of mandatory EEA-wide exhaustion of intellectual property rights, also in relation to goods originating from outside the EEA.
- 37 In the light of what is stated above in relation to the scope of the provisions of the EEA Agreement concerning intellectual property rights and, more specifically, exhaustion of such rights, the Court holds that the differences between the EEA Agreement and the EC Treaty with regard to trade relations with third countries do not constitute compelling grounds for divergent interpretations of Article 7(1) of the Trade Mark Directive in EEA law and EC law.
- 38 Based on the above, the Court concludes that Article 7(1) of the Trade Mark Directive is to be interpreted to the effect that it precludes the unilateral

introduction or maintenance of international exhaustion of rights conferred by a trade mark regardless of the origin of the goods in question.

IV Costs

- 39 The costs incurred by the Government of the Kingdom of Norway, the Government of Iceland, the Government of the Principality of Liechtenstein, the EFTA Surveillance Authority and the Commission of the European Communities, which have submitted observations to the Court, are not recoverable. Since these proceedings are a step in the proceedings pending before Follo tingrett and Oslo tingrett, respectively, any decision on costs for the parties to those proceedings is a matter for those courts.

On those grounds,

THE COURT,

in answer to the questions referred to it by Follo tingrett and Oslo tingrett, hereby gives the following Advisory Opinion:

Article 7(1) of 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 interpreted to the effect that it precludes the unilateral introduction or maintenance of international exhaustion of rights conferred by a trade mark regardless of the origin of the goods in question.

Thorgeir Örlygsson

Henrik Bull

Martin Ospelt

Delivered in open court in Luxembourg on 8 July 2008.

Skúli Magnússon
Registrar

Thorgeir Örlygsson
Acting President