

Exhaustion of ‘the right of first marketing’ – EU perspective

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The EEA territory

- Agreement on the European Economic Area – into force 01.01.1994
- ‘Internal Market’ of 31 countries 28 EU Member States and 3 EFTA States
- Accession to EU = EEA (art. 128 EEA Agreement)



Community exhaustion

- Topics
 - Legal framework (balancing rights IP v. free movement)
 - Legal doctrine
 - Burden of proof
 - Unique cases

Free movement since 1958 (34 TFEU) (ex 28 TEC)

‘Quantitative restrictions on imports and all measures having equivalent effect shall be prohibited between Member States.’

Justified Exceptions (36 TFEU) (ex 30 TEC)

*The provisions of Articles 34 and 35 shall not preclude prohibitions or restrictions on imports, exports or goods in transit justified on grounds of public morality, public policy or public security; the protection of health and life of humans, animals or plants; the protection of national treasures possessing artistic, historic or archaeological value; or the protection of **industrial and commercial property**. Such prohibitions or restrictions shall not, however, constitute a means of arbitrary discrimination or a disguised restriction on trade between Member States.*

Balancing of rights

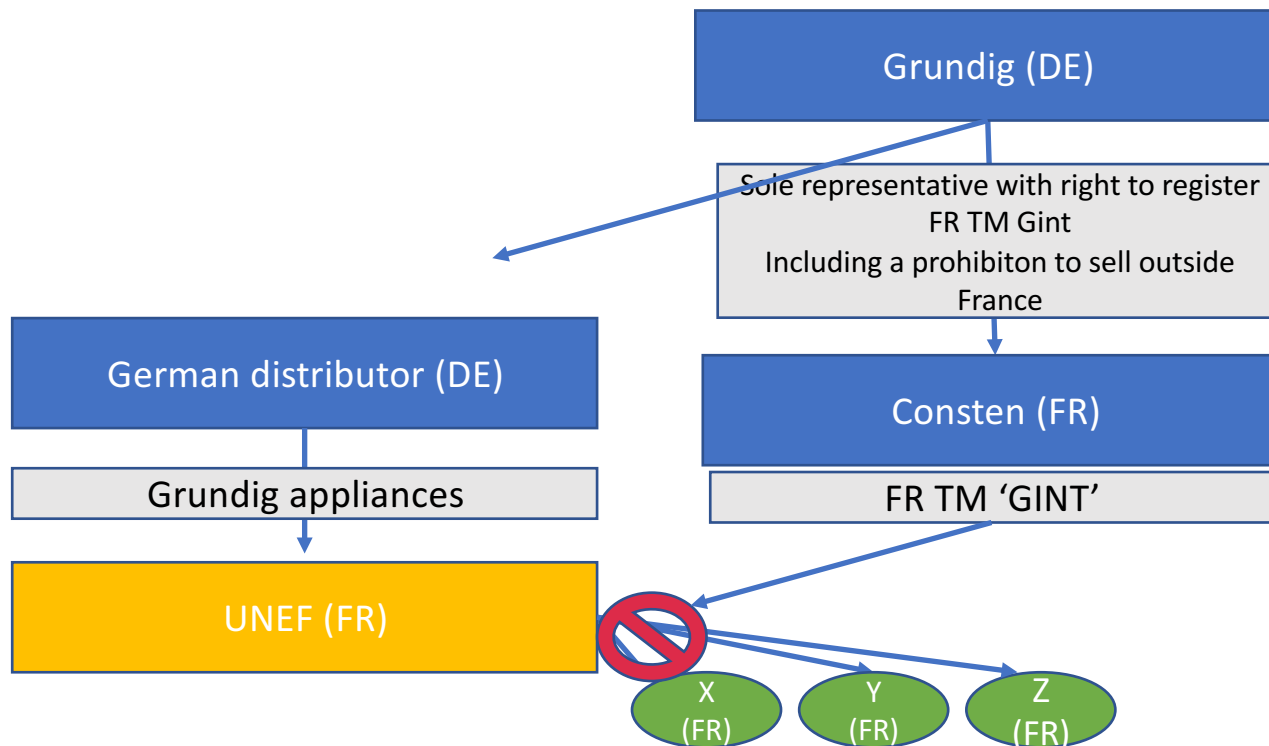
- Distinction between property right and right to exercise 345 TFEU (ex 295 TEC)
- Limitations to free movement
 - I 'specific subject matter' / 'essential functions' IP rights adversely affected
 - II agreements violating rules of competition law
- Limitation I most relevant to parallel trade

The subject-matter of ip rights

- Patents: reasonable reward for the invention
- Copyright: *Coditel I*: 'require fee', *Magill*: 'protection of moral rights'
- Trademarks: *Terrapin v. Terranova* and *Hoffmann-La Roche*: source indication

- In common: right of initial marketing!

C 56/64 (Grundig v. Consten) sole distributor agreement (article 85 ECT)



C 78-70 (Deutsche Grammophon GmbH v. Metro) free movement of goods (articles 30 and 36 ECT)

*IT IS IN CONFLICT WITH THE PROVISIONS PRESCRIBING **THE FREE MOVEMENT OF PRODUCTS WITHIN THE COMMON MARKET** FOR A MANUFACTURER OF SOUND RECORDINGS TO EXERCISE THE EXCLUSIVE RIGHT TO DISTRIBUTE THE PROTECTED ARTICLES, CONFERRED UPON HIM BY THE LEGISLATION **OF A MEMBER STATE**, IN SUCH A WAY AS TO PROHIBIT THE SALE IN THAT STATE OF PRODUCTS PLACED ON THE MARKET BY HIM OR WITH HIS CONSENT IN ANOTHER MEMBER STATE SOLELY BECAUSE SUCH DISTRIBUTION **DID NOT OCCUR WITHIN THE TERRITORY OF THE FIRST MEMBER STATE.***

Other IP rights ruled under 30 – 36 TEC

TM	C 16-74 Centrafarm v. Winthrop	1974
patent	C 15-74 Centrafarm v. Sterling Drug	1974
copyright	C-55-80 and 57-80 Membran and K-Tel v. GEMA	1981

THE COURT,

in answer to the questions referred to it by the Hoge Raad der Nederlanden, by interim decision of 1 March 1974, hereby rules:

1. The exercise, by the patentee, of the right which he enjoys under the legislation of a Member State to prohibit the sale, in that State, of a product protected by the patent which has been marketed in another Member State by the patentee or with his consent is incompatible with the rules of the EEC Treaty concerning the free movement of goods within the Common Market.

FFW first trademark directive

1988 (directive 89/104 EEC)

Preamble, 1:

Whereas the trade mark laws at present applicable in the Member States contain disparities which **may impede the free movement of goods** and freedom to provide services and may distort competition within the common market; whereas it is therefore necessary, in view of the establishment and functioning of the internal market, to approximate the laws of Member States;

Article 7, par 1:

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

1993 (regulation 40/94 EC)

Preamble, 1:

Not only must be barriers to **free movement of goods and services** be removed and arrangements be instituted which ensure that competition

Article 13

A Community 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.

Exhaustion

International
or...
Community?

Member States with different approaches within EU

Until...

Community exhaustion

C-9/93 (*Ideal Standard*) 30-36 TEC

- Par. 30: national tms are independent and may be assigned as such
- Par. 33: specific subject-matter: putting goods into circulation 1st time
- Par. 34: application of national law enabling import restrictions by economically linked undertakings from different Member States is contrary to 36 TEC in light of 'exhaustion of rights'
- Par. 38: decisive factor is possibility of control, not the actual exercise

C-355/96 (*Silhouette / Hartlauer*) 5 and 7 TMD

- Par. 25: complete harmonisation
- Par. 26: only community exhaustion
- Par. 27: safeguarding the functioning of the internal market

Consent...?

- C-173/98 *Sebago*
 - par. 22: each individual item
- C-414/99 to C-416/99 *Zino Davidoff and Levi Strauss*
 - par. 47: proprietor has unequivocally demonstrated having renounced its right of first marketing
 - Par. 55: consent may be express or implied (mere silence insufficient)
- C-127/09 *Coty/Simex*
 - Par 48: no implied consent 'not for sale' and 'demonstration' on bottle
- C-244/00 *Van Doren/Lifestyle*
 - Par. 39, 40: if there is a real risk of partitioning of market the burden of proof shifts

Other unique cases

- C-427/93, C-492/93, C-436/93 *Paranova*
- C-16/03 *Peak Holding/Axolin*
- C-59/08 *Dior/Copad*

- Pending C-291/16 *Schweppes*
 - AG : see C-9/93 *Ideal Standard*

Summary

- Right of initial marketing in EEA is an exclusive right conferred by a trade mark
- This right is exhausted after first marketing of a trade-marked good in a Member State
- If exhaustion is a means of defence, the burden of proof is on the defendant, unless real risk of partitioning of markets
- No exhaustion in *Peak* (sales offer insufficient), *Dior/Copad* (Exceptions 25(2) TMD /
- Same rules apply to repackaged goods (+repackaging requirements) *Hoffmann-La Roche*



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