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THE INCORPOREAL CURTAIN:  
THE EEA IS CLOSED TO EXTRA-MARKET GRAY GOODS

By Thomas Hays

Editor’s Note: This article follows an earlier article by Thomas Hays entitled “An Application of the European Rules on Trademark Exhaustion to Extra-Market Goods.” This prior article, found at 91 TMR 675 (2001), contains more detailed background of the Davidoff case. We welcome articles reflecting other viewpoints on this topic.

I. INTRODUCTION

A two-and-a-half year wait; an unintelligible opinion from the Advocate General;¹ the moralistic accusations of the combatants; and the escalation of the general conflict over parallel imports to a global level,² all contributed to create extraordinary tension and expectations for European intellectual property practitioners and brand owners.³ The European Court of Justice (ECJ) has now provided a resolution⁴ in the Article 234⁵ referral of Zino Davidoff

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¹ Zino Davidoff, SA v. A&G Imports, Ltd; Case C-414/99, Opinion of Advocate General, April 5, 2001, (hereafter the “AG’s Opinion”). Upon the publication of this opinion, both sides claimed a “resounding” victory. This Opinion is reprinted in 91 TMR 719 (2001).

² See AIDS Drug Battle Deepens in Africa: Indian Firm Seeks to Sell Medicine, International Herald Tribune, March 9, 2001, p. 19. Intellectual property owners and their licensees argue that the parallel trade in protected goods infringes their property interests in a manner similar to theft. Parallel traders argue that they are the agents of global free trade and that intellectual property owners want to use intellectual property rights to maintain national-law-based barriers to trade in support of artificially higher prices. The AIDS epidemic and the need to provide inexpensive versions of expensive pharmaceuticals in poor countries, and the resultant opportunity for parallel trade in those same pharmaceuticals from poor countries to a wealthy one, presents an extreme example of this dichotomy wherein the positions of the parties are overwhelmed by the moral imperative to save millions of lives.


v. A&G Imports, a dispute that led to litigation in both England and Scotland, and resulted in the High Court of England and the Court of Session in Scotland taking differing approaches to the problems raised by the parallel importation of trademark-protected goods.

Parallel importation is the result of intellectual property owners’ loss of control over their protected products. In the case of trademark-protected goods, a brand owner might lose control over products sold for export out of the European Economic Area (EEA) with the result that the goods are exported, are sold abroad, and are purchased by an arbitrageur who imports the goods into the EEA, undercutting the distribution system of the brand owner in a process analogous to the lifecycle of wild salmon.

Brand owners attempt to re-establish their control, in an effort to repel the parallel importation, by asserting their EEA-based trademark rights are being infringed. In response, parallel importers, and those merchants who purchase from them, argue that the brand owner’s exclusive EEA-based rights in the goods were exhausted during the extra-EEA commercialization.

This argument has generated an ever-expanding number of legal questions. The principal question of the past three years has been to what extent can a brand owner be said to have implicitly consented to the consequences of parallel importation and resale within the EEA, based on commercial actions, or inaction, with respect to the goods in question at the time of the

Maastricht, February 7, 1992, [1992] O.J. C 224/1; [1994] 1 C.M.L.R. 719, Art. 234. The European Union (EU) is a separate political entity from the European Economic Area (EEA). The former is quasi-state like customs union. The later is a free-trade area similar to NAFTA. The EEA is comprised of all the EU countries plus Iceland, Liechtenstein, and Norway.


9. Branded goods are optimized to appeal to certain markets in which they have the greatest allure. Just as salmon return to the streams of their birth, branded goods tend to migrate to their home markets, spawning litigation in the process.

first sale. It was a series of questions along this line that the English High Court referred to the ECJ in Davidoff. 11

II. THE EUROPEAN LAW CONTEXT

Trademark laws in the EEA are subject to a Harmonization Directive (“the Directive”), 12 which was intended to partially approximate the disparate laws of the Member States. 13 Article 5 of the Directive contains a list of the rights of trademark owners. Article 7 contains a list of limitations on those rights. Of particular importance to this discussion is Article 7(1):

The trademark 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 trademark by the proprietor or with his consent.14

11. There is a significant intra-market parallel trade in goods, particularly pharmaceuticals, that have never been outside of the EEA. See Glaxo Group, Ltd et al. v. Dowellhurst Ltd; Boehringer Ingelheim, KG and others v. Swingard, Ltd, Chancery Division, Decision of February 28, 2000, [2000] 55 BMLR 157; Beecham Group, plc v. Munro Wholesale Medical Supplies Ltd, Court of Session, Decision of December 8, 2000—unpublished. The process is the same but the legal issues are different from those that involve extra-market goods—meaning goods that have at least a portion of their commercial life outside of the EEA. See EMI Records Ltd v. CBS United Kingdom Ltd, Case 51/75, [1976] E.C.R. 811; [1976] 2 C.M.L.R. 235.


13. Id. preamble, 3rd recital.

14. Id. Art. 7(1). Article 5 of the Directive is also of importance to this discussion. It provides in part:

Rights conferred by a trade mark

1. The registered trade mark shall confer on the proprietor exclusive rights therein. The proprietor shall be entitled to prevent all third parties not having his consent from using in the course of trade:

(a) any sign which is identical with the trade mark in relation to goods or services which are identical with those for which the trade mark is registered;

(b) any sign where, because of its identity with, or similarity to, the trade mark and the identity or similarity of the goods or services covered by the trade mark and the sign, there exists a likelihood of confusion on the part of the public, which includes the likelihood of association between the sign and the trade mark.

2. Any Member State may also provide that the proprietor shall be entitled to prevent all third parties not having his consent from using in the course of trade any sign which is identical with, or similar to, the trade mark in relation to goods or services which are not similar to those for which the trade mark is registered, where the latter has a reputation in the Member State and where use of that sign without due cause takes unfair advantage of, or is detrimental to, the distinctive character or the repute of the trade mark.

3. The following, inter alia, may be prohibited under paragraphs 1 and 2:

(a) affixing the sign to goods or to the packaging thereof;
Under the various national laws of the Member States, there were other limitations on trademark proprietors’ rights. Some Member States held that the proprietors’ rights were exhausted after a volitional first sale of the underlying goods anywhere in the world.\textsuperscript{15} Other Member States did not. In Silhouette v. Hartlauer,\textsuperscript{16} the ECJ held that because the Directive was intended as a complete harmonization of Community law on the subject of exhaustion,\textsuperscript{17} individual Member States were not free to adopt national rules of trademark exhaustion that could affect the movement of goods within the Common Market. Thus, the only mechanism for determining whether a trademark owner’s control over branded goods has been exhausted is now Article 7(1) of the Directive.

This created a problem of identification, particularly when a brand owner sold identical goods under the same mark both within the market—where, under Article 7(1), there is no doubt that the brand owner’s rights are exhausted by a consensual sale—and outside of the market. The intra-market goods, first placed on the market by the proprietor, or with his consent, may move freely within the EEA, and are subject to resale by any trader, with or without the consent of the brand owner. The extra-market goods may, or may not, be imported into the market and be distributed and resold within the market, depending on the prior conduct of the brand owner. An attempt to resell extra-market goods within the EEA might result in a trademark infringement action, depending on the legal significance attached to the brand owner’s conduct. The identification problem arises because merchants may be unable to distinguish intra-market goods, in which trademark rights are exhausted, from identical extra-market goods, in which trademark rights may or may not still exist.

The argument that the brand owner’s consent for the intra-market resale of some branded goods of a particular type is consent for the resale of all goods of that type is not tractable. Because trademark infringement occurs with each individual example of the unauthorized use of a trademark, the ECJ has held

\begin{itemize}
  \item[(b)] offering the goods, or putting them on the market or stocking them for these purposes under that sign, or offering or supplying service thereunder;
  \item[(c)] importing or exporting the goods under the sign;
  \item[(d)] using the sign on business papers and in advertising.
\end{itemize}

\textsuperscript{15} The approach is referred to as “international” or “global” exhaustion and was the rule in Austria, Belgium, Denmark, Germany, Ireland, Luxembourg, the Netherlands, Sweden, and the United Kingdom before the Directive went into effect. See F. Beier, Territoriality of Trademark Law and International Trade [1970] 1 I.I.C. 48.


\textsuperscript{17} Id. para. 25.
that the brand owner’s consent for resale within the Community must be shown for each example of a branded product.\textsuperscript{18}

Missing both from the Directive and from the case law of the ECJ with respect to trademarks was a definition of “consent.” Various legal concepts of consent are well developed in the national contract laws of the member states. Under the Directive, and the case law, there is one rule of consent for trademark exhaustion, but with multiple definitions under the laws of the different countries. This was the conundrum on which the English Court’s referral sought guidance.\textsuperscript{19}

\section*{III. DAVIDOFF v. A&G IMPORTS—THE ENGLISH CASE}

Zino Davidoff, SA (Davidoff) established its public reputation through the sale of high-quality cigars.\textsuperscript{20} It later expanded its business, introducing new brands linked to the Davidoff name.\textsuperscript{21} COOL WATER is one of Davidoff’s registered trademarks used on a range of toiletries and cosmetics, particularly a line of perfumes and after-shave products.\textsuperscript{22} Davidoff sells its branded products both within the EEA and without, and at differing prices.\textsuperscript{23} Davidoff’s goods tend to be more expensive inside the EEA than they are elsewhere.\textsuperscript{24}

Davidoff had a distributor in Singapore that operated as an independent licensee for Asia.\textsuperscript{25} Davidoff sold to this trader a quantity of the COOL WATER products, through a contract that contained the following terms:

The Distributor shall sell the products directly to local retailers, or appoint sub-distributors or sub-agents within each market constituting the Territory, in agreement with the Supplier.

The Distributor undertakes not to sell any Products outside the Territory and shall oblige his sub-distributors, sub-agents and/or retailers to refrain from such sales.

In order to ensure that the contracts with sub-distributors and sub-agents contain the same obligations as specified for the

\textsuperscript{19} A&G Imports, supra n. 6.
\textsuperscript{20} Id. para. 2.
\textsuperscript{21} Id.
\textsuperscript{22} Id. paras. 2-3.
\textsuperscript{23} Id. para. 3.
\textsuperscript{24} Id.
\textsuperscript{25} Id. para. 31.
Distributor within this [agreement], the Distributor shall seek the prior written consent of the Supplier to the respective contracts as well as any subsequent modifications thereto. This applies in particular to the obligations specified in [the territorial restrictions].26

Davidoff exported the goods to Singapore. There is no record of the subsequent commercial life of the goods outside of the EEA.27

A&G Imports Ltd. (A&G) is a parallel importer. It purchases goods in lower-priced markets, and resells them in a higher-priced market.28 In the absence of intellectual property rights, the only obstacle to this price arbitrage, and the further commercialization of the goods, are the customs laws of the country of import. However, if intellectual property protection applies to the goods, the intellectual property owner or its licensees in the country of import might be able to keep the parallel goods out of circulation by invoking its national law-based intellectual property rights. In the present case, Davidoff invoked its United Kingdom trademark rights to stop A&G from selling the COOL WATER products in England,29 asserting that any resale of the branded products by A&G in the Community without Davidoff’s consent infringed its trademark rights. Davidoff also argued that the defacing of the boxes in which the goods were packaged altered the physical condition of the products to the public’s perception of the brand, thereby harming Davidoff.30

After a hearing on Davidoff’s application for summary judgment, the High Court in England held in favor of A&G on both issues. The Court held that, while a trademark owner had the right under Article 5 of the Directive to oppose the importation

26. Id. para. 8.

27. This lack of evidence is typical of parallel importation cases. Davidoff’s distributor in Asia may, or may not, have done what it agreed to do. The record is incomplete on this important point. There are several reasons for this lack of a complete commercial history of the goods. One reason is that A&G, the parallel importer in this case (or its suppliers), removed the batch codes Davidoff used to identify shipments of its products and track their movements. A&G Imports, para. 6. Thus, Davidoff could not accurately identify the actual distributor chain that sold the goods into parallel trade, and as a consequence, that connection was not before the Court. Also, A&G’s suppliers refused to testify at trial. Id. para. 8. See also the situation described in T. Hays, An Application of the European Rules on Trademark Exhaustion to Extra-market Goods, 91 TMR 675 (2001).

28. A&G Imports, para. 4.

29. The goods had been impounded in a Trading Standards warehouse because the removal of the batch codes was considered to be a violation of the Cosmetic Products (Safety) Regulation of 1996. Id. para. 8. This issue was separate from that of the rights of the intellectual property owner in the goods and could have been resolved in the importers favor without affecting the dispute over the parallel importation itself.

30. This assertion was based on Article 7(2) of the Directive which provides:

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.
without its consent of protected goods first sold outside of the EEA, that consent could be implied from the circumstances of the case.\footnote{A\&G Imports, para. 38.} Specifically, the Court said that, under English law, consent for the fullest further commercialization of goods is to be presumed unless the selling brand owner expressed a restriction at the time of the sale.\footnote{Id. para. 57.}

The Court applied this principle to Davidoff's dealings with its Singapore-based distributor. Although Davidoff had made it a condition of the sale of the COOL WATER products that the goods were only to be resold in Asia, and while Davidoff had insisted that this resale condition be extended to subsequent purchasers,\footnote{Id. para. 63.} the Court held that Davidoff had not \textit{expressly} reserved its consent for the further commercialization of the goods \textit{in the EEA}. Because Davidoff did not expressly reserve it, consent for the resale of the goods in England would be implied.\footnote{This presumption of consent absent an expressed reservation to the contrary may be traced through National Phonograph Co. of Australia Ltd v. Menck [1911] AC 336, PC, (1911) 28 RPC 229, to the 130-year old case of Betts v. Wilmott (1871) LR 6 Ch App 239, LC.} The English Court applied the rule whereby consent is presumed unless expressly reserved. Thus, Davidoff was said to have implicitly consented to the resale of the COOL WATER cologne within the EEA at the time of the first sale to its distributor in Singapore.\footnote{A\&G Imports, para. 38.} The result of that implied consent in the present case was that Davidoff's trademark-based right to control the importation, distribution, and resale of the goods in England was deemed exhausted.\footnote{Id. paras. 39-40.}

Davidoff also argued that, even if its trademark rights were exhausted under Article 7(1) of the Directive, it could still oppose the resale in the United Kingdom under Article 7(2) because A\&G's supplier had removed from the boxes of cologne the product batch codes that allowed Davidoff to track the movements of their products.\footnote{Id. paras. 41-53.} Mr. Justice Laddie held that such a change or impairment—sufficient to give a brand owner a right to oppose the resale of goods they no longer owned—would have to be substantial\footnote{Id. paras. 54-55.} and that the removal of the product batch codes, even though required to be on the packaging under the Cosmetics Directive,\footnote{ Council Directive 76/768/EEC of July 27, 1976, on the approximation of the laws of the Member States relating to cosmetic products (O.J. 1976 L 262/169).} was not a "substantial" change.\footnote{A\&G Imports, paras. 63-64.}
The High Court in England dismissed Davidoff’s motion for summary judgment and referred the following questions to the ECJ:

(1) Insofar as [the Directive] refers to goods being put on the market in the Community with the consent of the proprietor of a mark, is it to be interpreted as including consent given expressly or implicitly and directly or indirectly?

(2) Where:

(a) a proprietor has consented to or allowed goods to be placed in the hands of a third party in circumstances where the latter’s rights to further market the goods are determined by the law of the contract of purchase under which that party acquired the goods, and

(b) the said law allows the vendor to impose restrictions on the further marketing or use of the goods by the purchaser but also provides that, absent the imposition by or on behalf of the proprietor of effective restrictions on the purchaser’s right to further market the goods, the third party acquires a right to market the goods in any country, including the Community,

then, if restrictions effective according to that law to limit the third party’s rights to market the goods have not been imposed, is the Directive to be interpreted so as to treat the proprietor as having consented to the right of the third party acquired thereby to market the goods in the Community?

(3) If the answer to the previous question is in the affirmative, is it for the national courts to determine whether, in all the circumstances, effective restrictions were imposed on the third party?

(4) Is Article 7(2) of the Directive to be interpreted in such a way that legitimate reasons for the proprietor to oppose further commercialisation of his goods include any actions by a third party which affect to a substantial extent the value, allure or image of the trademark or the goods to which it is applied?

(5) Is Article 7(2) of the Directive to be interpreted in such a way that legitimate reasons for the proprietor to oppose further commercialisation of his goods include the removal or obliteration by third parties (in whole or in part) of any markings on the goods where such removal or obliteration is not likely to cause any serious or substantial damage to the reputation of the trademark or the goods bearing the mark?
(6) Is Article 7(2) of the Directive to be interpreted in such a way that legitimate reasons for the proprietor to oppose further commercialisation of his goods include the removal or obliteration by third parties (in whole or in part) of batch code numbers on the goods where such removal or obliteration results in the goods in question

(i) offending against any part of the criminal code of a Member State (other than a part concerned with trademarks) or

(ii) offending against the provisions of [the Cosmetics Directive]?41

IV. DAVIDOFF v. M&S TOILETRIES42—THE SCOTTISH CASE

While the High Court in England was making its deliberations, a nearly identical case came before the Court of Session in Scotland.43 The facts of the two cases were substantially the same, with M&S Toiletries (M&S) taking the place of A&G. The brand owner’s arguments were the same.44 The primary differences between the English and Scottish cases were the arguments made by the parallel traders and the outcomes.

M&S did not assert that English (or Scottish) national law governed the contract between Davidoff and the same Singaporean distributor. In fact, they asserted the relevance of no national law at all, instead they argued that the Directive itself governed the relationship with Davidoff and the issue of trademark exhaustion.45 M&S argued that under any reasonable interpretation of the facts, Davidoff had consented—within the meaning of Article 7(1) of the Directive—to the resale of the goods inside of the EEA.46

The Court of Session in Scotland disagreed. Lord Kingarth wrote, “[Davidoff], in short, had done all that they reasonably could in the agreement to limit sales to [Asia].”47 He went on to hold:

Before a trademark proprietor could properly be said to have consented to the putting on the market of particular goods by

41. Id. para. 64.
42. Supra n. 7.
44. M&S Toiletries, supra n. 7, p. 686-87.
45. Id. p. 684.
46. Id. p. 690.
47. Id. Judgment, para. 12.
a third party, a reasonable construction could suggest that he must at least have had knowledge of the third party’s acting or proposed acting in relation to the goods.\textsuperscript{48}

Thus, the Court of Session in Scotland rejected the English Court’s notion of a rebuttable presumption of consent for the further commercialization of branded goods. Just as consent could be implied from the circumstances of a sale, so a reservation of consent could also be implied. The Scottish Court ruled in favor of Davidoff.\textsuperscript{49}

V. LEVI STRAUSS v. TESCO/
LEVI STRAUSS v. COSTCO

At approximately the same time as the Davidoff litigation, Levi Strauss & Co. (Levis)—both the United States corporation and its United Kingdom licensee\textsuperscript{50}—brought a trademark infringement action in the High Court in England against Tesco Stores Ltd. (Tesco)\textsuperscript{51} and Costco Wholesale (UK) Ltd (Costco) (Levis Strauss). Levis claimed that Tesco and Costco infringed Levis’ registered marks, LEVI’S and 501, through the importation and sale, without a license, of genuine jeans purchased, directly or indirectly, from licensed retailers in North America.\textsuperscript{52}

As is often the case in parallel importation, there was a shadowy contingent of middlemen, at least nominally employed by both sides, who were not before the Court.\textsuperscript{53} Levis licensed wholesalers and retailers to distribute and sell its jeans in Canada, the United States, and Mexico under terms that prohibited, among other things, wholesale sales by retailers, large quantity retail sales, and exports.\textsuperscript{54} Tesco and Costco bought their supplies of jeans from suppliers, who in turn may have bought the jeans either from authorized wholesalers in Mexico, or from “accumulators” (professional shoppers who amass commercially

\textsuperscript{48} Id. Judgment, para. 14.
\textsuperscript{49} Id. Judgment, para. 21.
\textsuperscript{50} Levi Strauss (UK) Ltd. The two companies were treated as one by the ECJ, which referred to them collectively as “Levis.” Davidoff, supra n. 4, para. 21.
\textsuperscript{51} A United Kingdom corporation, including its subsidiary, Tesco plc. Id., para. 19. In this second case, Mr. Justice Pumfrey stayed the proceedings and referred three questions to the ECJ under Article 234. The referred cases were combined and the various questions, being similar, were answered together.
\textsuperscript{52} Id., paras. 22-23.
\textsuperscript{54} Davidoff, para. 25. Presumably, the no-export provisions of Levis’ licenses attempted to limit the circulation of the goods to the territory of NAFTA. The facts of the dispute do not recount whether the licenses contained a specific prohibition against sales or shipment to the EEA.
significant quantities of products by making numerous small-
quantity purchases from authorized retailers).55

Tesco said that it knew that Levis did not want the jeans
exported to the EEA, while Costco said that it was unaware of any
export-import restriction.56 However, both asserted that any
contract-based export or resale restrictions were between Levis
and its licensees, and did not apply to third parties such as
themselves. Furthermore, the United Kingdom retailers argued
that Levis had not actually reserved any rights in the jeans at the
time of the relevant sales in North America, nor had Levis
managed to impose any resale restrictions that would run with the
jeans.57 If there were no restrictions on resale, or other reservation
of rights, imposed by Levis at the time of the first sale, the
trademark rights in the goods were exhausted, and Levis’
purchasers, who eventually became Tesco’s and Costco’s suppliers,
were free to dispose of the jeans as they wished.

The Court stayed the infringement action, and referred a
series of questions to the ECJ for a preliminary ruling. These
questions were the same in substance as those referred by the
Court in A&G Imports.

VI. THE ECJ DECISION

The ECJ began its analysis by noting that while the questions
posed by the two English cases were substantially the same, there
was a slight, technical difference.58 In A&G Imports, Mr. Justice
Laddie questioned the status of goods placed on the market in the
European Union,59 whereas Mr. Justice Pumfrey’s reference in
Levis Strauss questioned the status of goods placed on the market
in the EEA.60 While the Court concluded that its answer would be
the same in either case,61 the distinction is an important one in
that it has been the subject of disagreements among courts in the
past and, until addressed in this judgment, could continue to
result in divergent decisions in the future.

In Mag Instruments,62 the EFTA Court came to a
substantially different conclusion, as to the ability of signatory

55. Id. paras. 22-23.
56. Id. para. 26.
57. Id. para. 27.
58. Id. paras. 30-31.
59. A&G Imports, para. 64.
60. Davidoff, para. 28.
61. Id. para. 31. The remainder of the judgment refers to the EEA, the more inclusive
area, as the market in question, rather than the Community.
62. Mag Instruments Inc. v. California Trading Company Norway, Ulsteen, Case E-
2/97 before the EFTA Court, [1998] 1 C.M.L.R. 331.
states to the European Free Trade Agreement to enact or maintain national regimes of global trademark exhaustion, from that subsequently reached by the ECJ with respect to Member States when applying Article 7 of the Directive in Silhouette.63

This potential for divergence in jurisprudence arises in part from a peculiarity in the wording of the EFTA itself.64

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 [ECJ] given prior to the signature of this Agreement.65

This version of a reception statute, whereby one legal system adopts the law of another legal system through a legislative reference to the adopted law, has the disadvantage of there not having been much, if any, ECJ case law on the subject of the exhaustion of trademark-based interests in goods first sold outside of the market at the time of accession of the EFTA states. This absence of law forced the EFTA Court to interpret Article 7 without the benefit of ECJ precedents.66 The perceived risk has always been that disharmony in national trademark laws, whether of EFTA signatories or of full EU Member States, would provide a passage into the greater EEA market for foreign goods, essentially frustrating EU policy as to the status of those goods.67 The ECJ’s decision to treat the referrals “at par”—extending to the EFTA states its interpretation of Community legislation—makes clear that the Court intends to apply this standard in future

63. Id. paras. 26-30, where the EFTA Court said at para. 27:

The EEA Agreement does not entail a common commercial policy towards third countries.... 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.... 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.


65. Id. Protocol 28 on Intellectual Property, Article 2(1).


67. Silhouette, supra n. 16, paras. 15-31. Consistent external border enforcement is critical for market integration built on the internal free movement of goods. Variations in national intellectual property laws as to external goods must be suppressed so as to avoid differences between Member States as to the legal status of those goods within the supposedly seamless internal market.
jurisdictional disputes where there is a possibility of a divergence between EFTA and Community applications of important legislation.

Before addressing the first referred question, the ECJ restated its prior rules as to international exhaustion:

1. The Community legislature did not leave it open to the Member States to provide in their domestic law for exhaustion of the rights conferred by a trademark in respect of products placed on the market in non-Member countries.68

2. The effect of the Directive is therefore to limit exhaustion of the rights conferred on the proprietor of a trademark to cases where goods have been put on the market in the EEA and to allow the proprietor to market his products outside that area without exhaustion of his rights within the EEA.69

3. The placing of goods on the market outside of the EEA does not exhaust the proprietor’s right to oppose the importation of those goods without his consent and “the proprietor of the trademark [may] control, the initial marketing in the EEA of goods bearing the mark.”70

Having said that, and considering the referred questions, it remained for the ECJ to determine under what circumstances, if any, a brand owner’s consent for the intra-EEA marketing of extra-market goods could be implied.71

VII. EXPRESS v. IMPLIED CONSENT

The first preliminary sub-issue for determining whether, and how, consent may be implied is to determine how consent may be given.72 More basic still is the inherently Community law question whether there must be a uniform meaning given to the term “consent,” as used in Article 7(1) of the Directive.73 This question, and others like it, asked in a Community context, is consequence driven. To ask whether the meaning given to consent should be uniform is not to ask whether it is uniform in fact, or required to be uniform under the terms of some defining legislation. Rather, it

69. Id. para. 33.
70. Id. citing Sebago, supra n. 18, para. 21.
71. Id. paras. 34-35.
72. Id. para. 36.
73. Id. para. 37. The Italian government argued that a strictly territorial application of EEA-based trademark law negated the need to define consent because no extra-territorial sale could implicate the Article 7(1) exhaustion provisions. See para. 38. Cf. Beier, Territoriality of Trademark Law and International Trade, supra n. 15.
is to ask, in the absence of a clear definition of the term, if differing national definitions would pose such threats to market integration (and the free movement of goods principle) as to make a uniform definition necessary. In this instance, the Court observed:

If the concept of consent were a matter for the national laws of the Member States, the consequence for trademark proprietors could be that protection would vary according to the legal system concerned. The objective of “the same protection under the legal systems of all the Member States” set out in the ninth recital in the preamble to Directive 89/104, where it is described as fundamental, would not be attained.

Having determined the least desired effect—i.e., variations in the protection afforded by differing national trademark laws—the Court chose an interpretation for the meaning of consent that would avoid it. The Court held, “[c]onsent must be so expressed that an intention to renounce [the exclusive right of the proprietor to control the initial marketing of the goods in the EEA] is unequivocally demonstrated.” Thus a brand owner’s consent for the intra-market resale of extra-market goods could be implied, but only if there could be no doubt about the brand owner’s intention.

This has become the usual result of harmonization in Community trademark law. In practice, harmonization affects national intellectual property laws to a far greater degree than that suggested by the language of the harmonization legislation itself. In the case of trademarks, the preamble of the Directive declared:

Whereas it does not appear to be necessary at present to undertake a full-scale approximation of the trademark laws of the Member States and it will be sufficient if approximation is limited to those national provisions of law which most directly affect the functioning of the internal market.

Then, in Silhouette, the ECJ held that the Directive, while not intended as a complete harmonization of trademark law in general, was a complete harmonization of the law on trademark

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74. Thus, harmonization is essentially a reductionist exercise, eliminating national-law-based obstacles to integration without a clearly defined legislative alternative. Harmonization seeks to eliminate the differences in legal systems. With supporting, affirmative legislation, harmonization would replace these differences with a common substitute body of law. Without supporting legislation, harmonization has nothing to offer other than to leave the affected legal systems with their pre-existing common provisions. If there are few common provisions, then the resulting, post-harmonization law of all legal systems will be reduced both with respect to the area of law being harmonized, and with respect to that area in relation to other, interdependent areas of law.

75. Davidoff, para. 42.

76. Id. para. 45

77. The Trademarks Directive, supra n. 12, preamble, para. 3.
exhaustion through Article 7. Article 7 is not a very detailed exposition of the law, and such perfunctory harmonization soon generated questions, particularly where there was a high degree of commercial uncertainty as to whether imported branded goods were free to be resold within the EEA. The ECJ established the principle that full harmonization of various aspects of the law could, and would, be implied from a minimum amount of legislation. This principle applies even where there are alternative interpretations of the legislation, and where the interpretation that favors increased harmonization results in unfortunate practical consequences. In Sebago, the Advocate General said:

The Court cannot in my view be expected to stand legislation on its head in order to achieve an objective, even were it to be considered desirable. If the Directive is found to have effects which are unacceptable, the correct remedy is to amend the Directive or ... to enter into international agreements.

This is as much as to say that the judicial propensity towards the harmonization of national laws will continue even in the face of fairly obvious reasons in favor of a contrary, less harmonious, approach.

In the present case, the ECJ harmonized (to a great extent) the meaning of consent. Because consent, whether expressed or implied, is a necessary component of trademark exhaustion, and because trademark exhaustion is completely harmonized, as described above, the meaning of consent must be fully harmonized by the Directive. Accordingly, the ECJ concluded that: “It therefore falls to the Court to supply a uniform interpretation of the concept of consent to the placing of goods on the market within the EEA as referred to in Article 7(1) of the Directive.”

Taken to its logical conclusion, this line of reasoning contradicts the partial-harmonization purpose of the Directive itself. Like the meaning of the term “consent,” the substantive, or procedural, legal definitions of “trademark” are fundamental to trademark exhaustion. Thus, the Court might be justified in fully harmonizing those definitions, which would be the same as a full harmonization, or approximation, of national trademark laws. In

78. See supra n. 16-17.
79. See supra n. 14.
80. As in Sebago, supra n. 18.
82. Sebago, supra n. 18, Advocate-General’s Opinion, para. 30.
83. Davidoff, para. 45.
84. Id. paras. 41-42.
85. Id. para. 43.
86. See the text accompanying supra n. 17.
the abstract, this pattern of interpretation means that the complete harmonization of any element within a body of national laws could, in time, result in the harmonization of every other element, even though there is no clear legislative mandate for that extension of harmonization.

At a practical level, the harmonization of the meaning of consent with respect to trademark exhaustion means that a brand owner’s consent for the resale of protected goods in the EEA can be implied from the facts surrounding a transaction, but those facts will have to “unequivocally demonstrate that the proprietor has renounced his rights” in the goods in question.87

VIII. A BRAND OWNER’S SILENCE

The second set of sub-questions considered by the ECJ asked whether a brand owner’s consent for the resale of goods inside of the EEA could be implied from the brand owner’s silence as to any resale restrictions at the time of the first sale. Under English law, there is a presumption that a purchaser takes branded products free of any resale restrictions if the brand owner does not impose those restrictions in some way at the time of sale.88 Tesco and Costco argued that they should be presumed to have acted with the consent of Levis because no resale restrictions on the goods in question were ever communicated to them.89 A&G argued that the same presumption should apply to it, for the same reason, and that Davidoff’s sole resale restriction—that its Asian distributor sell the goods in the contract territory—was fulfilled.90

This line of questioning raises three important issues. The first is that of the relationship between contractual restrictions on the resale of branded goods and third parties. The second is that of the requirement, if any, of notice to subsequent purchasers of resale restrictions and the burden of proof required of the parties to trademark infringement actions where the substance of the claim would be the import status of genuine goods encountered within the EEA market. The third issue, the one bearing the greatest potential consequences for commercial law in the

87. Davidoff, para. 46.
88. A&G Imports, paras. 29-30. This presumption dates at least to the case of Betts v. Wilmott, supra n. 34, where the Lord Hatherly LC said at p. 245:
   When a man has purchased an article he expects to have the control of it, and there must be some clear and explicit agreement to the contrary to justify the vendor in saying that he has not given the purchaser his license to sell the article, or to use it wherever he pleases as against himself.  
89. Davidoff, paras. 49-50, 52.
90. Id. para. 51. The ECJ noted that there was no evidence that Davidoff’s distributor did anything other than what it had contractually promised to do.
Community, is the relationship between national contract law in general and limited harmonization directives.

The ECJ said that consent, such as would be effective to exhaust intra-Community trademark rights through an extra-Community sale of the underlying goods, “must be expressed positively.” Consequently, consent cannot be implied from a trademark proprietor’s silence at the time of a sale about where the goods can be resold. Thus, third parties, which would not necessarily be bound by resale restrictions imposed by contract on a first purchaser if there was a presumption at law in favor of unhindered further commercialization, cannot rely on their ignorance of such restrictions as a defense to a subsequent infringement action. The rule now, from the Davidoff judgment, is the reverse of that applicable to bona fide purchasers of lien-encumbered property. Because resale consent must be affirmatively given in the first instance in order for it to be legally operative, not knowing whether it was given does not absolve a third party of the consequences of unauthorized commercialization.

The second issue follows naturally from the first. If a third party, acting at least in ignorance, if not in good faith, can be held liable for trademark infringement resulting from the attempted resale of otherwise non-piratical, extra-market goods, does the applicable trademark owner have any responsibility to communicate resale restrictions to subsequent purchasers; and who bears the burden of proving the presence, or absence, of consent at trial?

The first part of this question asks, in effect, whether brand owners must label their goods with resale restrictions in order to warn purchasers that they are taking the products without full liberty to resell them. The ECJ did not address this directly, but it did eviscerate the question by holding that consent for intra-market resale could not be implied from a lack of any warning to the contrary on the goods themselves.

The second part asks who bears the burden of proving consent: the brand owner or a retailer, including small merchants who obtain legitimate goods in an otherwise legal manner but remote from the contract-based distribution agreements through which the brand owner put the goods into the stream of commerce? This question arises as an automatic consequence of the absence of a

91. Id. para. 53 (emphasis added).
92. Id. para. 55.
93. The A&G Imports opinion alludes to this question. It has been proposed, in order to avoid confusion in the internal market where identical branded goods may be in circulation, some with consent to be there and some without, that brand owners should be required to label their products; e.g., NOT FOR SALE IN THE EEA.
94. Davidoff, para. 56.
The presumption in favor of merchantability. The ECJ's answer is that the burden of proof is to be on a trader to prove that it has the brand owner's consent for the first sale of the goods in question in the Community. This holding creates a presumption, the opposite of that at common law; the importation or intra-market commercialization of extra-market branded goods are presumed to be acts of infringement, rebuttable by proof of the brand owner's consent.

The third issue concerns the role of national contract law. In this instance (i.e., in the United Kingdom) the national law is the common law presumption of free alienability after an unrestricted sale of goods. The first sales of both the jeans and the cologne were unrestricted in the sense that neither of the brand owners specifically made it a condition of their sales that the goods were not to be resold in the EEA. The Court said:

A rule of national law which proceeded upon the mere silence of the trademark proprietor would not recognise implied consent but rather deemed consent. This would not meet the need for consent positively expressed required by Community law.

Thus, the law governing the contracts, in this case English law, was held inapplicable in light of what the ECJ saw as the overriding need of enforcing the Directive. In its broadest application, this holding stands for the proposition that fundamental concepts of national laws of contract could be subordinate to harmonization directives of expressly-limited substantive scope.

95. This issue is discussed in depth in T. Hays, The Burden of Proof in Parallel Importation Cases, supra n. 10.

96. Davidoff, para. 54. Under Article 7 of the Directive, the first consensual sale in the market exhausts the trademark control over the goods. All subsequent sales would not need the brand owner's consent. It is unclear how a trader would know, apart from contacting the applicable brand owner, that the first in a series of intra-market sales of products was or was not with consent.

97. This is just as well for it may well be that such restriction, if combined with selective distribution systems operating in the EEA, may violate Article 81 of the EC Treaty, bringing down on the contracting parties the financial sanctions of the competition laws. See Javico Int'l and Javico AG v. Yves Saint Laurent Parfums, SA, Case C-306/96, [1998] E.C.R. I-1983; [1998] 5 C.M.L.R. 172.

98. Davidoff, para. 58.

99. Id. para. 59, where the Court said:

In so far as it falls to the Community legislature to determine the rights of a trade mark proprietor ... it would be unacceptable on the basis of the law governing the contract for marketing outside the EEA to apply rules of law that have the effect of limiting the protection afforded to the proprietor of a trade mark by ... the Directive.
IX. ALL BRANDED GOODS ARE SUSPECT

The third question addressed by the ECJ was whether resale restrictions imposed by a brand owner on the first purchaser, but unknown to the rest of the world, could be enforced against subsequent purchasers. The Court answered the question by referring to its answers to the preceding questions. Where consent for resale cannot be implied from a brand owner’s silence, or from a lack of restrictions on the goods themselves, or presumed as a matter of national contract law, and where the burden of proof is on a subsequent purchaser to prove that it has the brand owner’s consent for the further commercialization of goods in the EEA, it is irrelevant that there may, or may not, have been resale restrictions imposed at the time of the first sale of the goods that have not been communicated to the subsequent purchaser.100

On this basis, all trademarked goods encountered outside of the EEA, and those in circulation inside the EEA but not being sold there directly by the brand owner or its identifiable agents, are suspect. Subsequent purchasers acquire them at their own risk unless they first get a license (or other permission) from the brand owner. Any trader attempting to deal in goods that have had any portion of their commercial lives outside of the EEA market can only receive such rights of resale in those goods as the brand owner affirmatively gave to its first purchaser. A subsequent purchaser cannot rely on any other contracts between its predecessors in ownership of the goods, the commercial conventions established for hundreds of years in national laws, or the general ebb and flow of commerce itself, to wash from the goods the taint of a lack of consent. Hence all foreign parallel goods are infringing until proven otherwise.

X. IMPLICATIONS FOR THE FUTURE

With the Davidoff decision, the EEA is closed to (non-consensual) extra-market parallel imports. This is the effect of a fundamental change in the legal battlefield over the gray market in the European Union. The old combatants are still present. On the one hand are the brand owners, and their territorial arguments for being able to repel gray goods. On the other side are the discount retailers, and their parallel-importing suppliers, claiming to represent the interests of consumers in obtaining lower-priced designer goods. The change represented by the line of cases culminating with Davidoff is that both positions are now subordinated to the harmonization of national trademark laws. The brand owners appear to be winning, but that appearance is only because their interests and the political interests of market

100. Id. paras. 65-67.
integration happen to coincide for the moment and not because of some more substantial judicial or legislative reason based on the dictates of trademark law. A shift in Community politics, perhaps one favoring freer global trade in branded goods, or a more aggressive application of Community competition laws to intellectual property rights, could just as easily open the EEA’s internal borders to parallel trade.

For the time being, a trademark owner’s expressed consent, or a near implied equivalent, must be proven by Community-based retailers who plan to import and sell foreign-sourced branded goods. This requirement is likely to be applied to goods protected by copyright or designs since both of these forms of intellectual property protection have been harmonized, at least as to the exhaustion of rights, by provisions nearly identical to Article 7 of the Directive.

In a logical extension of the harmonization principles discussed above, the consent requirements given in Davidoff may come to be applied to patent protected goods. While national patent laws have not, as yet, been harmonized, the case law of the ECJ holds that the exhaustion of one intellectual property right exhausts all of the rights protecting a product. Rather than allowing more easily exhausted patents to breach the incorporeal curtain of protection provided for the European Union, the ECJ, if questioned on this point in the future by a referring national court, is likely to hold that harmonization necessitates that the Davidoff consent requirements apply to patents as well as to trademarks.

The European Commission gives, but it can also take away. The advantage Community brand owners now enjoy in being able to repel extra-market parallel goods under Davidoff may be off set by a further loss of control over intra-market goods under the eventual decision in Glaxo v. Dowelhurst, now pending before the ECJ. What is clear at present is that the growth of trademark


104. See supra n. 11; again, as in A&G Imports, based on questioning by Laddie, J. This case involves intra-market parallel trade in branded pharmaceuticals. The issues are those of the function of trademarks, the degree of repackaging and relabeling in which a parallel trader may engage, and the amount of notice a parallel trader should give to a brand owner of the unauthorized trade in protected goods. The INTA’s position is given at www.inta.org/downloads/brief_GlaxoGroup.pdf.
law, and perhaps the growth of commercial law in general, within the EEA is subordinate to the needs of market integration.